

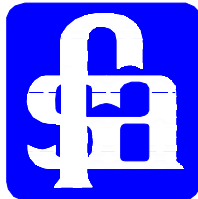
SENATE FISCAL AGENCY ISSUE PAPER

**ESTATE TAXES: GOING, GOING, GONE?
A Review of Who Pays Death Taxes and
The Impact of Eliminating the Federal Estate Tax**

by

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***A Series of Papers Examining Critical Issues Facing
the Michigan Legislature***

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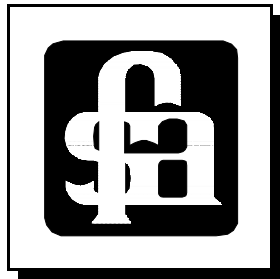
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EXECUTIVE SUMMARY

On July 14, 2000, the United States Senate passed H.R. 8, the "Death Tax Elimination Act of 2000", clearing the bill to be sent to the President. H.R. 8 proposed to phase out the Federal estate and gift taxes over a 10-year period. Although President Clinton vetoed the bill, the issue remains popular with many members of the public and Congress. If the Federal estate and gift taxes were to be eliminated, states would likely experience significant revenue losses, as would other sectors of the economy. This paper provides a background on "death taxes", particularly in Michigan and at the Federal level, and examines the implications of eliminating the Federal estate tax.

Death taxes serve a variety of purposes, including generating revenue, redistributing income, and complementing the income tax. States have levied and continue to levy a variety of death taxes, including inheritance taxes, estate taxes, "pick-up" taxes, and combinations of these taxes. In fiscal year (FY) 1998-99, the Federal government received \$27.8 billion in revenues under the Federal estate and gift taxes. In FY 1997-98, the most recent year for which state data are available, states received \$6.9 billion in revenue from death taxes.

The Federal estate tax provides a credit for state death taxes. Michigan's estate tax is a "pick-up" style tax that is based upon the Federal credit for state death taxes. In FY 1999-2000, Michigan's death tax revenues totaled \$177.4 million and in January 2001 were forecasted to total \$190.0 million by FY 2000-01. Based on national averages, larger estates represent the minority of returns but comprise the majority of death tax revenues at both the Federal and state levels.

Elimination of the Federal estate tax would have an impact on both Federal and state tax revenues, directly as well as indirectly. State death taxes would be directly affected because eliminating the Federal estate tax also would eliminate the Federal credit for state death taxes. State death tax revenues attributable to pick-up provisions totaled \$5.3 billion in FY 1997-98. State and Federal income tax revenue likely would decline as a result of labor force incentives affecting heirs and reduced capital gains. Charitable organizations probably would experience revenue losses also, because charitable giving would be expected to decline as the Federal estate tax was eliminated. Interstate competition for the wealthy would likely increase, possibly resulting in the elimination of all death taxes at the state level.

TYPES AND PURPOSE OF DEATH TAXES

The term "death taxes" is used to refer to a wide variety of taxes levied upon the transfer of wealth or income, particularly at the time of an individual's death. The most common death taxes are the inheritance tax and the estate tax. The inheritance tax and the estate tax exhibit many similarities, particularly in the effect upon the bequests received by beneficiaries, as well as significant differences.

Inheritance Taxes

Traditionally, inheritance taxes are regarded as being levied upon beneficiaries. Most inheritance taxes provide for differential tax rates and exemption amounts based on a beneficiary's relationship to the decedent. For example, most modern inheritance taxes provide a full exemption for bequests to a spouse; while bequests to individuals who are not family members often receive only a token exemption, such as for the first \$100, if they

receive any exemption at all. Similarly, the closer the familial relationship, the more favorable the tax rates tend to be. Under Indiana's inheritance tax, for example, the first \$100,000 of each bequest to a parent or child is exempted, and the remaining amounts face marginal tax rates from 1% to 10%. Under the Indiana inheritance tax, however, only the first \$500 of each bequest to a sibling is exempt, and the excess is subjected to marginal tax rates ranging from 7% to 15%; and only the first \$100 of each transfer to individuals such as relatives as a result of marriage, cousins, or friends is exempt, and the excess faces marginal tax rates ranging from 10% to 20%.

Estate Taxes

In contrast to inheritance taxes, estate taxes are regarded as being levied against the decedent. A certain amount is traditionally exempted from tax, although the amount of the exemption may change under certain circumstances. Many modern estate taxes also exempt all of the estate transferred to a spouse, despite the fact that this makes the tax somewhat of an estate/inheritance tax hybrid. The Federal estate tax provides a larger exemption if the estate involves a closely held business or a family farm. Some estate taxes provide the exemption directly, in that the exemption is subtracted from the taxable value of the gross estate, while most estate taxes opt to provide the exemption through a credit. For example, in Ohio, certain deductions, such as the portion of the estate transferred to a spouse or to a charitable institution, are subtracted off of the top of the gross value of an estate to determine the gross taxable value of the estate. Ohio then applies marginal tax rates which vary from 2% to 7% to the gross taxable value of the estate. Finally, Ohio then grants a credit of \$500 against the tax. As a result of the credit, Ohio exempts the first \$25,000 of the taxable value of each estate.

Applying an exemption by means of a credit produces a different distributional effect than does granting an exemption against the gross taxable value of the estate. If an exemption is applied directly, then tax reduction is effectively at the highest marginal rate, while using a credit results in always applying the lowest marginal rates and assures that all taxpayers receive an exemption that is worth the same amount. For example, if Ohio were to apply the \$25,000 exemption directly, an estate worth \$10 million would see its taxes fall by \$1,750 while an estate valued at \$30,000 would see its taxes fall by \$500. By providing a credit of \$500 (the tax upon a \$25,000 estate), Ohio ensures that the first, rather than last, \$25,000 of each estate is exempted from tax and that all estates realize the same reduction in taxes.

The Federal estate tax functions as an estate tax, although the tax rates, tax brackets, deductions, and credits are more numerous and more complex than are most state estate taxes. Tax liability under the Federal estate tax is computed by subtracting a host of deductions from the gross value of the estate. Some of these deductions make the Federal estate tax appear to be an estate/inheritance tax hybrid.

"Pick-up" Taxes

Most states use a specialized version of an estate tax that takes advantage of certain provisions in the Federal estate tax. The Federal government allows an estate to receive a credit for death taxes paid to states, regardless of whether those taxes were estate taxes or inheritance taxes. States may levy death taxes in excess of the credit allowed by the Federal government, but the Federal estate tax will allow only a predetermined amount as a credit.

Many states, however, levy estate taxes using the same schedule the Federal government uses to determine the state death tax credit. As a result, these states "pick up" revenue that otherwise would be received by the Federal government. For example, in the absence of a state death tax, if an estate faced a Federal estate tax liability of \$96,000 (the liability for a \$925,000 estate), then the estate would receive no credit for state death taxes and would pay \$96,000 to the Federal government. Under a "pick-up" tax, however, because the Federal government would allow a state death tax credit of \$29,000 for an estate of that size, the state would receive \$29,000 and the Federal government would receive the difference, or \$67,000. The taxpayer's total liability remains unchanged under the pick-up tax (in this case \$96,000); only the units of government that receive the money are altered. Tables 1a and 1b compare the computation of an inheritance tax, estate tax, pick-up tax, and the Federal estate tax for two sample estates.

Table 1a COMPARISON OF DEATH TAX CALCULATIONS				
<u>Assumptions:</u> Four beneficiaries: spouse, two children, one friend. The spouse receives 75% of estate. Each child receives 10% of estate. The friend receives 5% of estate. The estate is valued at \$1.5 million, and does not include a farm or business. The estate involves only in-state property. Inheritance taxes are based on the Indiana Inheritance Tax. The Indiana Estate Tax is not included. Estate Taxes are based on the Ohio Estate Tax. No other deductions, exemptions, or special conditions are applied.				
	Inheritance Tax*	Estate Tax*	Pick-up Tax	Federal Tax
Gross Estate Value	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
<u>Bequests</u>				
Spouse	\$750,000	\$750,000	\$750,000	\$750,000
First Child	\$150,000	\$150,000	\$150,000	\$150,000
Second Child	\$150,000	\$150,000	\$150,000	\$150,000
Friend	\$75,000	\$75,000		
Gross Taxable Estate	\$1,500,000	\$750,000	\$750,000	\$750,000
<u>Taxes</u>				
Spouse	\$0	NA	NA	NA
First Child	\$3,500	NA	NA	NA
Second Child	\$3,500	NA	NA	NA
Friend	\$7,490	NA	NA	NA
Estate Tax	NA	\$41,100	\$20,400	\$248,300
<u>Credits</u>				
Spouse	NA	NA	NA	NA
First Child	NA	NA	NA	NA
Second Child	NA	NA	NA	NA
Friend	NA	NA	NA	NA
Estate Tax	NA	\$500	NA	\$240,950
Total Tax After Credits . .	\$14,490	\$40,600	\$20,400	\$7,350
* Many states that levy an inheritance tax, or an estate tax not based on the Federal credit for state death taxes, require taxpayers to pay the greater of the inheritance/estate tax or the pick-up tax. The illustrations for the inheritance tax and estate tax presented do not attempt to capture any pick-up provisions.				

Source: Senate Fiscal Agency

Table 1b COMPARISON OF DEATH TAX CALCULATIONS				
Assumptions:				
Four beneficiaries: two children, one sibling, one friend. Each child receives 35% of estate. The sibling receives 20% of estate. The friend receives 10% of estate.				
The estate is valued at \$1.5 million, and does not include a farm or business.				
The estate involves only in-state property.				
Inheritance taxes are based on the Indiana Inheritance Tax. The Indiana Estate Tax is not included. Estate Taxes are based on the Ohio Estate Tax.				
No other deductions, exemptions, or special conditions are applied.				
	Inheritance Tax*	Estate Tax*	Pick-up Tax	Federal Tax
Gross Estate Value	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
Bequests				
First Child	\$525,000	\$525,000	\$525,000	\$525,000
Second Child	\$525,000	\$525,000	\$525,000	\$525,000
Sibling	\$300,000	\$300,000	\$300,000	\$300,000
Friend	\$150,000	\$150,000	\$150,000	\$150,000
Gross Taxable Estate	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
Taxes				
First Child	\$15,500	NA	NA	NA
Second Child	\$15,500	NA	NA	NA
Sibling	\$26,950	NA	NA	NA
Friend	\$17,485	NA	NA	NA
Estate Tax	NA	\$93,600	\$64,400	\$555,800
Credits				
First Child	NA	NA	NA	NA
Second Child	NA	NA	NA	NA
Sibling	NA	NA	NA	NA
Friend	NA	NA	NA	NA
Estate Tax	NA	\$500	NA	\$284,950
Total Tax After Credits . .	\$75,435	\$93,100	\$64,400	\$270,850
* Many states that levy an inheritance tax, or an estate tax not based on the Federal credit for state death taxes, require taxpayers to pay the greater of the inheritance/estate tax or the pick-up tax. The illustrations for the inheritance tax and estate tax presented do not attempt to capture any pick-up provisions.				

Source: Senate Fiscal Agency

Purposes for Death Taxes

Death taxes largely continue to exist for three main reasons: 1) to complement the income tax by ensuring that wealth does not escape taxation, 2) to redistribute income, and 3) to generate tax revenue. While the Federal estate tax was initially enacted to generate revenue in the wake of World War I, the Federal gift and estate taxes also have served to complement the individual income tax by ensuring that certain income does not escape taxation, and that the income of each generation is subject to tax. How the Federal estate tax treats capital gains illustrates the first goal: Under the individual income tax, capital gains are taxed only when realized. In the absence of an estate tax, given that the basis of capital assets is "stepped-up" when the assets are received through a transfer such as a bequest, (i.e., valued as if the beneficiary had purchased them at the time of the inheritance) capital gains of the decedent would remain untaxed. Similarly, certain items, such as certain life insurance proceeds or interests from state and local bonds, are exempt from the individual income tax. Because these incomes are included in the value of the gross estate, the Federal estate tax is able to reduce erosion of the individual income tax.

Income redistribution is served through both the progressive nature of the Federal estate tax rates and the effect of the tax upon large inheritances. When the Federal estate tax was enacted, the prevailing political thought considered large concentrations of wealth as a threat to democracy. Furthermore, large bequests were considered inconsistent with democratic conceptions of the ideals of equal opportunity. Consequently, the Federal estate tax attempts to reduce wealth concentration and further income redistribution by reducing inheritances through high marginal tax rates.

Minimizing interstate competition for the wealthy represents a tertiary purpose of the Federal estate tax. When the Federal estate tax was first enacted, states viewed the power to tax estates and/or bequests as their preserve. In an attempt to allow states to retain at least a portion of the state tax base for death taxes, the Federal estate tax allows a credit for state death taxes paid. Although the credit for state death taxes does not completely eliminate interstate competition for the wealthy, because states are free to impose death taxes that may result in either higher or lower liabilities than those allowed by the Federal credit, the credit has minimized competition and provided an opportunity for states to maintain a minimal revenue stream without many of the economic distortions created by taxes.

BACKGROUND AND STRUCTURE OF DEATH TAXES IN MICHIGAN

The Federal government began levying a version of the current estate tax in 1916, although experiments with a number of transfer taxes began as early as 1797. Michigan's first death tax was an inheritance tax imposed in 1899, while the current estate tax was enacted in 1993.

Federal Estate Tax

When originally enacted, the Federal estate tax applied to estates valued in excess of \$50,000 and levied a maximum marginal tax rate of 10%. The most significant revision to the Federal estate tax occurred in 1976, when the Federal estate tax was integrated with the Federal gift tax and Congress imposed the generation-skipping transfer tax. The 1976 amendments also imposed the current rate structure, with marginal tax rates that range from 18% to a maximum of 55%. For certain large estates (those in which the taxable estate exceeds \$10 million), an additional 5% tax is levied on a portion of the estate.

The tax base of the Federal estate tax includes the value of real estate, cash, stocks, bonds, businesses, pensions, annuities, and proceeds from life insurance policies owned by the decedent. The tax base also includes most personal property including automobiles, farm machinery, livestock, household goods and personal effects, and even wearing apparel; as well as types of intangible goods such as royalties, leaseholds, and shares in trust funds. Allowable deductions from the gross value of the estate include funeral expenses, numerous types of debts or obligations of the decedent, administrative expenses incurred in the handling of the estate, charitable contributions, bequests to a spouse, and special deductions for qualified family-owned businesses and farms. Subtracting these deductions and exemptions from the tax base determines the taxable value of the estate, to which the unified rate schedule is applied. The tax rate schedule is referred to as the unified rate schedule because of the changes that combined the Federal estate and gift taxes and "unified" them under the same tax structure. Marginal tax rates applied to the taxable value of the estate range from 18% to 55% (faced by estates with a gross taxable value in excess of \$3 million). Table 2

illustrates the brackets and associated marginal tax rates applied to the taxable value of the estate. The rates in [Table 2](#) do not include the presence of the additional 5% tax for estates with taxable values exceeding \$10 million.

Table 2

UNIFIED RATE SCHEDULE		
Taxable Amount Over	Taxable Amount Not Over	Marginal Tax Rate
\$0	\$10,000	18%
\$10,000	\$20,000	20%
\$20,000	\$40,000	22%
\$40,000	\$60,000	24%
\$60,000	\$80,000	26%
\$80,000	\$100,000	28%
\$100,000	\$150,000	30%
\$150,000	\$250,000	32%
\$250,000	\$500,000	34%
\$500,000	\$750,000	37%
\$750,000	\$1,000,000	39%
\$1,000,000	\$1,250,000	41%
\$1,250,000	\$1,500,000	43%
\$1,500,000	\$2,000,000	45%
\$2,000,000	\$2,500,000	49%
\$2,500,000	\$3,000,000	53%
\$3,000,000		55%

Source: Internal Revenue Service, U.S. Department of Treasury

After estate taxes are calculated from the unified rate schedule, the unified credit is used to exempt a portion of the value of the estate from taxation. The unified credit subtracts the liability for an estate of a given size, the amount traditionally regarded as an "exemption" in popular literature, and is calculated on the same schedule as the tax. The unified credit is not affected by the 5% tax levied on portions of estates with taxable values exceeding \$10 million. As a result of the Taxpayer Relief Act of 1997 (TRA97), the amount of the unified credit will increase through 2006. In 2000 the unified credit equaled \$220,550, which corresponds to the tax upon a taxable gross estate value of \$675,000. Because the credit offsets the tax on the first \$675,000 of the estate, the effective marginal tax rates range from 37% to 55% for those estates that may have a Federal liability. When Congress has changed the "exemption" amount for the Federal estate tax, the unified credit is what has been adjusted.

After the unified credit is applied, the Federal estate tax allows a credit for state death taxes. The credit for state death taxes is computed on the adjusted taxable estate, which is the taxable gross value of the estate minus \$60,000, and marginal rates vary from 0% to 16%. The credit for state death taxes is limited to the greater of Federal liability after the unified credit or a predetermined amount that is calculated using the brackets and rates in [Table 3](#). The taxpayer must have actually paid a state death tax to be able to claim the credit and may not claim a credit for an amount greater than the amount of death taxes paid. Consequently, if an estate faced no state death tax, then no state death tax credit would be allowed. For

most practical purposes, estates that receive a state death credit face effective Federal marginal tax rates ranging from 33% to 39% (although combined state and Federal tax rates will meet or exceed the 37% to 55% range, depending on a given state's particular death tax).

Table 3

COMPUTATION OF MAXIMUM CREDIT FOR STATE DEATH TAXES		
Adjusted Taxable Estate Over	Adjusted Taxable Estate Not Over	Marginal Tax Rate
\$0	\$40,000	0.0%
\$40,000	\$90,000	0.8%
\$90,000	\$140,000	1.6%
\$140,000	\$240,000	2.4%
\$240,000	\$440,000	3.2%
\$440,000	\$640,000	4.0%
\$640,000	\$840,000	4.8%
\$840,000	\$1,040,000	5.6%
\$1,040,000	\$1,540,000	6.4%
\$1,540,000	\$2,040,000	7.2%
\$2,040,000	\$2,540,000	8.0%
\$2,540,000	\$3,040,000	8.8%
\$3,040,000	\$3,540,000	9.6%
\$3,540,000	\$4,040,000	10.4%
\$4,040,000	\$5,040,000	11.2%
\$5,040,000	\$6,040,000	12.0%
\$6,040,000	\$7,040,000	12.8%
\$7,040,000	\$8,040,000	13.6%
\$8,040,000	\$9,040,000	14.4%
\$9,040,000	\$10,040,000	15.2%
\$10,040,000		16.0%

Source: Internal Revenue Service, U.S. Department of Treasury

Michigan Inheritance Tax

Michigan first enacted an inheritance tax in Public Act 188 of 1899. The Michigan inheritance tax, like most inheritance taxes, provided different tax rates and exemption amounts based on the relationship between the decedent and the beneficiary. Substantial amendments were made to the Michigan inheritance tax in 1992, although many of the changes failed to have any meaningful effect because, in 1993, the Michigan inheritance tax was replaced by the current Michigan estate tax. The Michigan inheritance tax created four classes of beneficiaries: 1) spouses, 2) close relatives, such as siblings, lineal descendants and lineal ancestors, 3) charitable institutions, and 4) all others not included in the first three classes.

Prior to the 1992 amendments, bequests to spouses generally were exempt from the inheritance tax, as were bequests to charitable institutions. For close relatives (the second

class listed above), the first \$10,000 of the bequest was exempt from tax while any excess was subject to tax at marginal tax rates that ranged from 2% to 10%. All other beneficiaries received a \$100 exemption and faced marginal tax rates ranging from 12% to 17%.

Amendments in Public Act 65 of 1992 gradually increased the exemption amounts for close relatives to \$15,000 in 1993, \$25,000 in 1994, and \$50,000 for 1995 and later years. The changes also exempted transfers of real and personal property associated with a family-owned business to qualified heirs.

Michigan Estate Tax

Public Act 54 of 1993 replaced the Michigan inheritance tax effective June 3, 1993. Proponents of the change argued the inheritance tax encouraged retirees to relocate to other states, particularly states without an inheritance tax; that the tax made it difficult or impossible to transfer most family-owned businesses or farms to heirs and often required the heirs to liquidate the business to meet the tax burden; and that the tax discouraged certain types of desired economic activities related to saving and investment. The Michigan estate tax uses the "pick-up" approach, and levies a tax equal in amount to the maximum credit for state death taxes under the Federal estate tax. For decedents with property in other states, whether or not they were Michigan residents, the tax levy reflects the maximum credit for state death taxes prorated according to the portion of the estate located in Michigan.

ECONOMIC AND REVENUE CHARACTERISTICS OF DEATH TAXES

Both the Federal estate tax and state death taxes traditionally have comprised a small portion of total revenues for taxing authorities. The portion of revenues generated by death taxes has risen in recent years, as the values of estates have swelled in response to the strong growth of the stock market. While larger estates have resulted in revenue increases and subjected a larger proportion of decedents' estates to death taxes, death taxes continue to draw the majority of their revenue from the wealthiest estates.

Federal Estate Taxes

In 1997, approximately 2.3 million deaths occurred in the United States. Deaths each year represent approximately 0.9% of the total population. Only 42,901, or approximately 1.8%, of the 2.3 million individuals who died in 1997 left behind taxable estates. As discussed more fully below, approximately 20.8% of Federal estate tax revenue was attributable to the 0.8% largest taxable estates (329 estates). Consequently, more than one-fifth of Federal estate tax revenues are derived from the estates of less than 0.01% of the deaths occurring each year (or, similarly, the estates of 0.0001% of the population).

As indicated earlier, the Federal government originally adopted the Federal estate tax to generate revenue. For much of the latter half of the 20th century, however, the Federal estate tax has comprised less than 3% of tax revenue and less than 2% of total Federal receipts. (See [Table 4](#) and [Figure 1](#).) These shares have remained fairly constant despite inflation, recessions, economic growth, stock market run-ups and crashes, wars, and changes in tax laws. Adjusted for inflation, Federal estate tax revenues remained fairly stable between 1960 and 1990, but the performance of the stock market resulted in real Federal estate tax revenues approximately doubling between 1990 and 1999.

Table 4

FEDERAL ESTATE AND GIFT TAXES, 1940 TO 2005							
(dollar amounts in millions)							
Fiscal Year	Estate & Gift Taxes	Total Taxes	Percent of Total Taxes	Total Receipts	Percent of Total Receipts	Estate & Gift Taxes ^{a)}	Percent Growth
1940	\$353	\$4,419	8.0%	\$6,548	5.4%	\$2,521	
1941	\$403	\$6,393	6.3%	\$8,712	4.6%	\$2,741	8.7%
1942	\$420	\$11,801	3.6%	\$14,634	2.9%	\$2,577	-6.0%
1943	\$441	\$20,599	2.1%	\$24,001	1.8%	\$2,549	-1.1%
1944	\$507	\$39,809	1.3%	\$43,747	1.2%	\$2,881	13.0%
1945	\$637	\$41,262	1.5%	\$45,159	1.4%	\$3,539	22.8%
1946	\$668	\$35,647	1.9%	\$39,296	1.7%	\$3,426	-3.2%
1947	\$771	\$34,532	2.2%	\$37,514	2.1%	\$3,457	0.9%
1948	\$890	\$37,239	2.4%	\$41,560	2.1%	\$3,693	6.8%
1949	\$780	\$35,026	2.2%	\$39,415	2.0%	\$3,277	-11.3%
1950	\$698	\$34,452	2.0%	\$39,443	1.8%	\$2,896	-11.6%
1951	\$708	\$45,073	1.6%	\$51,616	1.4%	\$2,723	-6.0%
1952	\$818	\$58,830	1.4%	\$66,167	1.2%	\$3,087	13.4%
1953	\$881	\$61,812	1.4%	\$69,608	1.3%	\$3,300	6.9%
1954	\$934	\$61,522	1.5%	\$69,701	1.3%	\$3,472	5.2%
1955	\$924	\$56,663	1.6%	\$65,451	1.4%	\$3,448	-0.7%
1956	\$1,161	\$64,158	1.8%	\$74,587	1.6%	\$4,268	23.8%
1957	\$1,365	\$68,686	2.0%	\$79,990	1.7%	\$4,858	13.8%
1958	\$1,393	\$66,829	2.1%	\$79,636	1.7%	\$4,820	-0.8%
1959	\$1,333	\$65,939	2.0%	\$79,249	1.7%	\$4,581	-5.0%
1960	\$1,606	\$75,491	2.1%	\$92,492	1.7%	\$5,426	18.4%
1961	\$1,896	\$76,048	2.5%	\$94,388	2.0%	\$6,341	16.9%
1962	\$2,016	\$80,644	2.5%	\$99,676	2.0%	\$6,675	5.3%
1963	\$2,167	\$84,528	2.6%	\$106,560	2.0%	\$7,082	6.1%
1964	\$2,394	\$88,315	2.7%	\$112,613	2.1%	\$7,723	9.0%
1965	\$2,716	\$91,539	3.0%	\$116,817	2.3%	\$8,622	11.6%
1966	\$3,066	\$101,647	3.0%	\$130,835	2.3%	\$9,463	9.8%
1967	\$2,978	\$115,194	2.6%	\$148,822	2.0%	\$8,916	-5.8%
1968	\$3,051	\$114,524	2.7%	\$152,973	2.0%	\$8,767	-1.7%
1969	\$3,491	\$142,640	2.4%	\$186,882	1.9%	\$9,512	8.5%
1970	\$3,644	\$142,590	2.6%	\$192,807	1.9%	\$9,392	-1.3%
1971	\$3,735	\$133,364	2.8%	\$187,139	2.0%	\$9,222	-1.8%
1972	\$5,436	\$147,816	3.7%	\$207,309	2.6%	\$13,005	41.0%
1973	\$4,917	\$160,546	3.1%	\$230,799	2.1%	\$11,074	-14.8%
1974	\$5,035	\$179,451	2.8%	\$263,224	1.9%	\$10,213	-7.8%
1975	\$4,611	\$184,169	2.5%	\$279,090	1.7%	\$8,571	-16.1%
1976	\$5,216	\$195,191	2.7%	\$298,060	1.7%	\$9,167	7.0%
TQ	\$1,455	\$53,189	2.7%	\$81,232	1.8%		
1977	\$7,327	\$237,393	3.1%	\$355,559	2.1%	\$12,091	31.9%
1978	\$5,285	\$264,601	2.0%	\$399,561	1.3%	\$8,106	-33.0%
1979	\$5,411	\$307,674	1.8%	\$463,302	1.2%	\$7,453	-8.1%
1980	\$6,389	\$339,387	1.9%	\$517,112	1.2%	\$7,754	4.0%
1981	\$6,787	\$394,680	1.7%	\$599,272	1.1%	\$7,466	-3.7%
1982	\$7,991	\$391,253	2.0%	\$617,766	1.3%	\$8,281	10.9%
1983	\$6,053	\$367,313	1.6%	\$600,562	1.0%	\$6,077	-26.6%
1984	\$6,010	\$398,679	1.5%	\$666,486	0.9%	\$5,784	-4.8%
1985	\$6,422	\$438,276	1.5%	\$734,088	0.9%	\$5,968	3.2%
1986	\$6,958	\$451,979	1.5%	\$769,215	0.9%	\$6,349	6.4%
1987	\$7,493	\$516,433	1.5%	\$854,353	0.9%	\$6,596	3.9%
1988	\$7,594	\$538,510	1.4%	\$909,303	0.8%	\$6,419	-2.7%
1989	\$8,745	\$592,112	1.5%	\$991,190	0.9%	\$7,052	9.9%
1990	\$11,500	\$607,236	1.9%	\$1,031,969	1.1%	\$8,799	24.8%
1991	\$11,138	\$619,453	1.8%	\$1,055,041	1.1%	\$8,178	-7.1%
1992	\$11,143	\$632,946	1.8%	\$1,091,279	1.0%	\$7,942	-2.9%
1993	\$12,577	\$687,834	1.8%	\$1,154,401	1.1%	\$8,704	9.6%
1994	\$15,225	\$753,890	2.0%	\$1,258,627	1.2%	\$10,273	18.0%
1995	\$14,763	\$819,495	1.8%	\$1,351,830	1.1%	\$9,687	-5.7%
1996	\$17,189	\$899,444	1.9%	\$1,453,062	1.2%	\$10,955	13.1%
1997	\$19,845	\$996,528	2.0%	\$1,579,292	1.3%	\$12,364	12.9%
1998	\$24,076	\$1,099,012	2.2%	\$1,721,798	1.4%	\$14,771	19.5%
1999	\$27,782	\$1,162,356	2.4%	\$1,827,454	1.5%	\$16,676	12.9%
2000 ^{b)}	\$30,486	\$1,242,851	2.5%	\$1,956,252	1.6%		
2001 ^{b)}	\$32,304	\$1,276,160	2.5%	\$2,019,031	1.6%		
2002 ^{b)}	\$34,893	\$1,305,230	2.7%	\$2,081,220	1.7%		
2003 ^{b)}	\$36,271	\$1,338,343	2.7%	\$2,147,489	1.7%		
2004 ^{b)}	\$38,677	\$1,386,509	2.8%	\$2,236,091	1.7%		
2005 ^{b)}	\$37,029	\$1,443,149	2.6%	\$2,340,896	1.6%		

a) 1982-84 Dollars inflation-adjusted. b) Estimate.

Source: Office of Management and Budget, Executive Office of the President of the United States

Figure 1

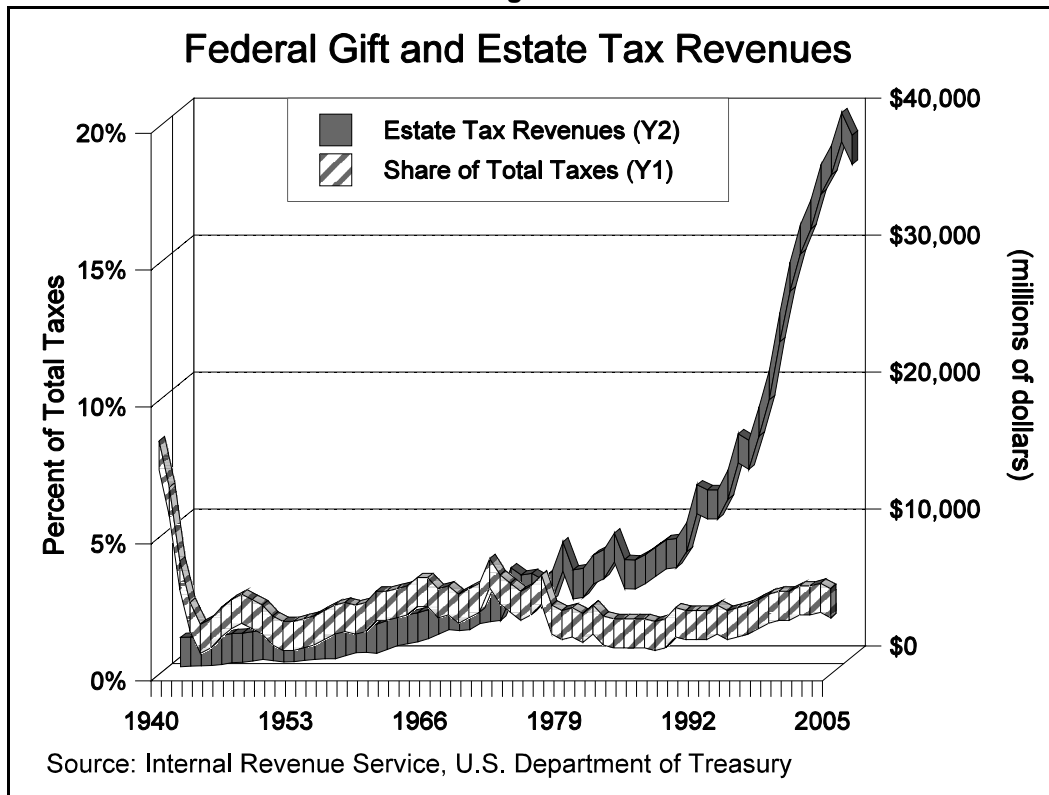


Table 5 illustrates the distribution of Federal estate taxes across the states. Federal estate taxes per death vary significantly between states, and bear little correlation to average per person income within each state. The low correlation between incomes and Federal estate taxes in different states most likely results from two factors: 1) different patterns in deductions, and 2) the geographic mobility of wealthier individuals. Under the first factor, the deductions allowed in determining the Federal taxable estate include bequests to spouses and to charitable institutions, as well as various debts and administrative expenses. The first factor will cause significant differences in Federal estate taxes between states, even among estates with identical gross values, to the extent there are variations across the states regarding charitable giving, the percentage of decedents who die in a given year without a spouse (or who contribute differing shares of the estate to the spouse), debt patterns, and the share of the economic base comprising family-owned businesses eligible for the special deduction.

Similarly, Federal estate tax data are based upon the state of residence at the time of death (more specifically, the "permanent" address of the decedent at the time of death, regardless of whether actual residency has been claimed). Consequently, individuals who amass significant wealth while living in one state and then retire to another state will cause Federal estate liability in a given state to reflect the mobility of decedents rather than the economic opportunities to create that wealth. The most obvious cases of this mobility are present in the highest- and lowest-ranking states in Federal estate taxes per death. Federal estate taxes per death are more than eight times greater in Florida than in Alaska. Conventional wisdom holds that wealthy retirees would be likely to choose Florida over Alaska as a residence.

Table 5

FEDERAL ESTATE TAXES PER DEATH - 1997						
State	Federal Estate Taxes (\$1,000s)	1997 Deaths	Federal Estate Tax per Death	Rank	1997 Per Capita Income	Rank
Alabama	\$150,549	42,850	\$3,513	41	\$21,260	40
Alaska	\$3,622	2,479	\$1,461	50	\$26,990	13
Arizona	\$265,527	37,045	\$7,168	16	\$22,839	35
Arkansas	\$104,500	27,346	\$3,821	38	\$20,342	46
California	\$2,664,393	222,870	\$11,955	2	\$26,779	16
Colorado	\$118,014	25,943	\$4,549	30	\$28,070	8
Connecticut	\$328,119	30,024	\$10,929	7	\$35,636	1
Delaware	\$75,230	6,638	\$11,333	5	\$27,605	10
Florida	\$1,855,401	152,513	\$12,166	1	\$25,645	20
Georgia	\$238,527	58,518	\$4,076	31	\$24,594	25
Hawaii	\$87,674	7,795	\$11,247	6	\$26,299	17
Idaho	\$36,219	8,990	\$4,029	34	\$21,013	44
Illinois	\$877,290	104,652	\$8,383	11	\$28,468	6
Indiana	\$248,817	53,530	\$4,648	29	\$23,909	30
Iowa	\$111,978	28,090	\$3,986	35	\$23,882	31
Kansas	\$148,935	24,082	\$6,184	20	\$24,406	26
Kentucky	\$227,352	37,968	\$5,988	21	\$21,286	39
Louisiana	\$209,565	39,242	\$5,340	25	\$21,254	41
Maine	\$138,986	11,946	\$11,635	4	\$22,394	37
Maryland	\$312,826	42,207	\$7,412	14	\$29,112	5
Massachusetts	\$409,367	55,605	\$7,362	15	\$31,592	3
MICHIGAN	\$316,942	83,766	\$3,784	39	\$25,780	19
Minnesota	\$219,590	37,294	\$5,888	23	\$27,536	11
Mississippi	\$47,978	26,930	\$1,782	48	\$18,873	50
Missouri	\$326,156	54,534	\$5,981	22	\$24,368	27
Montana	\$23,101	7,758	\$2,978	44	\$20,130	48
Nebraska	\$62,911	15,478	\$4,065	33	\$24,769	24
Nevada	\$112,327	13,342	\$8,419	10	\$28,216	7
New Hampshire	\$63,145	9,635	\$6,554	18	\$27,746	9
New Jersey	\$636,373	73,826	\$8,620	9	\$32,582	2
New Mexico	\$47,784	12,495	\$3,824	37	\$20,288	47
New York	\$1,711,852	163,152	\$10,492	8	\$30,538	4
North Carolina	\$268,125	65,914	\$4,068	32	\$24,210	28
North Dakota	\$14,490	6,118	\$2,368	47	\$20,876	45
Ohio	\$557,478	106,263	\$5,246	27	\$24,998	21
Oklahoma	\$118,838	33,437	\$3,554	40	\$21,080	43
Oregon	\$149,408	29,301	\$5,099	28	\$24,987	22
Pennsylvania	\$689,533	130,196	\$5,296	26	\$26,211	18
Rhode Island	\$64,333	9,939	\$6,473	19	\$26,855	14
South Carolina	\$109,689	33,749	\$3,250	43	\$21,416	38
South Dakota	\$11,640	6,811	\$1,709	49	\$22,410	36
Tennessee	\$180,221	52,033	\$3,464	42	\$23,445	33
Texas	\$979,199	140,467	\$6,971	17	\$23,998	29
Utah	\$43,593	11,248	\$3,876	36	\$21,192	42
Vermont	\$59,371	4,999	\$11,877	3	\$23,382	34
Virginia	\$407,123	54,137	\$7,520	13	\$26,810	15
Washington	\$324,857	42,495	\$7,645	12	\$27,018	12
West Virginia	\$53,829	20,879	\$2,578	45	\$19,406	49
Wisconsin	\$266,751	45,402	\$5,875	24	\$24,941	23
Wyoming	\$8,933	3,742	\$2,387	46	\$23,601	32
Total	\$16,488,461	2,315,673	\$7,120		\$25,924	

Source: Bureau of the Census, U.S. Dept. of Commerce

Michigan Death Taxes

While Michigan's pick-up style estate tax took effect June 3, 1993, the changes affected only those decedents dying after September 30, 1993. Furthermore, there is a considerable lag between the date of death and when a death tax return is due or received. Under both the inheritance tax and the estate tax, except for brief a nine-month period between January and September 1993 under the inheritance tax, returns have been due nine months after the date of death. If an estate becomes involved in court proceedings, the return often is received later than nine months after the date of death. As a result, although the Michigan inheritance tax officially ended in September 1993, revenues from the tax were received for years afterward. Table 6 compares the relationship of Michigan death taxes and total tax revenues with Federal estate taxes between 1986 and 1999. Michigan generally has relied less on death taxes than the Federal government, and, due to the changes in the Federal Taxpayer Relief Act of 1997, has experienced stronger growth in death tax revenues in recent years. Also, in recent years, Michigan estate tax revenues have grown more rapidly than total revenues have grown.

Table 7 provides information on the growth of Federal and Michigan death taxes, as well as the state death tax credit claimed on the Federal return by the estates of Michigan decedents. Despite the tax cuts enacted in 1997, Federal estate tax revenues have exhibited strong growth, which is expected to continue. The drastic swings in Michigan death tax revenue over the 1992-1995 period primarily reflect the replacement of the Michigan inheritance tax with a pick-up tax and timing issues resulting from the various legislative changes enacted over the period. Inheritance tax payments, timing issues, and multistate estates (including those of nonresidents with Michigan property) account for the differences between the Federal credit for state death taxes and revenues received under the Michigan estate tax.

Table 8 illustrates information from Federal tax returns filed for Michigan decedents between 1989 and 1997, the most recent year for which state-level Federal estate tax data are available. Despite inflation and stock market growth, the average value of Michigan estates filing a Federal return has remained stable over the 1989-1997 period. Nevertheless, both Federal estate taxes and the credit for state death taxes for Michigan decedents have fluctuated considerably over the same period, reflecting significant year-to-year variations in the same type of estate characteristics that result in many of the state-to-state differences.

The data in Table 8 also show that the number of Michigan estates filing a Federal estate tax return more than doubled between 1989 and 1997. The number of estates claiming a credit for state death taxes or exhibiting a Federal liability, however, has not risen as rapidly as has the number of estates filing a return. The data do not indicate if this disparity reflects increased awareness of, or compliance with, filing requirements, or if it reflects a change in the pattern of bequests and debts among Michigan decedents. The figures for average estate value and Federal estate tax after credits, however, indicate that much of the revenue growth over the 1989-1997 period reflected the increased number of estates filing returns rather than growth in estate sizes or changes in the characteristics of estates. The share of Michigan estates that filed a Federal return and claimed a state death tax credit fell from 62.8% to 48.2%, a 14.6 percentage point decline. The share of Michigan estates claiming a state death tax credit fell despite the increase in the number of Federal returns, the lack of changes in the Federal estate tax, and the approximately 6.2 percentage point decline (from an average of 51.0% to 44.8%) in the share of returns exhibiting a Federal liability. Over the

1995-1997 period approximately 48% of Michigan estates claimed a state death tax credit, implying that slightly less than half of Michigan estates required to file a Federal estate return paid tax under the Michigan estate tax. Similarly, approximately 45% of Michigan estates reported a Federal estate tax liability after credits.

Table 8 indicates that the average state death tax credit fell between 1995 and 1997, even though Michigan death tax revenues rose over the same period. Average state death tax credits (and thus average death tax liability to Michigan) fell because the number of returns claiming the credit increased 43.3% while total state death tax credits claimed remained fairly constant. As can be seen in Table 8, the average estate value also declined during this period, despite tremendous growth in the stock market. As a result, the data in Table 8 suggest that while stock market growth affects estate size, such growth has increased the number of estates subject to tax more rapidly than it has increased the size of estates. Stock market growth appears to have increased the number of estates in the smaller brackets, by raising small estates into the \$600,000 to \$1 million range. As discussed below, these estates often exhibit small liabilities, with net estate taxes averaging \$43,927 in 1997.

Table 6

MICHIGAN AND FEDERAL INHERITANCE AND ESTATE TAX COLLECTIONS COMPARED WITH TOTAL TAX COLLECTIONS (in millions)					
Fiscal Year	Inheritance & Estate Taxes	MICHIGAN		Growth	Death Taxes Share
		Growth	Total Tax Revenue		
1977	\$50.7		\$4,760.0		1.1%
1978	\$45.7	-9.9%	\$3,884.0	-18.4%	1.2%
1979	\$53.8	17.8%	\$6,044.0	55.6%	0.9%
1980	\$50.4	-6.3%	\$6,126.4	1.4%	0.8%
1981	\$55.3	9.8%	\$6,195.0	1.1%	0.9%
1982	\$57.7	4.2%	\$6,500.6	4.9%	0.9%
1983	\$64.2	11.3%	\$7,333.4	12.8%	0.9%
1984	\$92.4	44.0%	\$8,471.6	15.5%	1.1%
1985	\$62.7	-32.2%	\$8,911.0	5.2%	0.7%
1986	\$78.3	24.9%	\$9,270.8	4.0%	0.8%
1987	\$84.5	7.9%	\$9,591.7	3.5%	0.9%
1988	\$93.8	11.0%	\$10,285.5	7.2%	0.9%
1989	\$103.9	10.8%	\$10,850.9	5.5%	1.0%
1990	\$124.4	19.8%	\$11,062.4	1.9%	1.1%
1991	\$119.6	-3.9%	\$11,722.3	6.0%	1.0%
1992	\$207.8	73.8%	\$12,232.2	4.4%	1.7%
1993	\$163.3	-21.4%	\$12,866.3	5.2%	1.3%
1994	\$57.0	-65.1%	\$15,082.5	17.2%	0.4%
1995	\$73.7	29.4%	\$17,468.7	15.8%	0.4%
1996	\$87.0	18.1%	\$18,520.1	6.0%	0.5%
1997	\$79.5	-8.7%	\$19,440.3	5.0%	0.4%
1998	\$110.4	38.9%	\$20,626.0	6.1%	0.5%
1999	\$174.9	58.4%	\$21,958.9	6.5%	0.8%
Fiscal Year	Estate & Gift Taxes	FEDERAL GOVERNMENT		Growth	Death Taxes Share
		Growth	Total Tax Revenue		
1977	\$7,327.0		\$237,393.0		3.1%
1978	\$5,285.0	-27.9%	\$264,601.0	11.5%	2.0%
1979	\$5,411.0	2.4%	\$307,674.0	16.3%	1.8%
1980	\$6,389.0	18.1%	\$339,387.0	10.3%	1.9%
1981	\$6,787.0	6.2%	\$394,680.0	16.3%	1.7%
1982	\$7,991.0	17.7%	\$391,253.0	-0.9%	2.0%
1983	\$6,053.0	-24.3%	\$367,313.0	-6.1%	1.6%
1984	\$6,010.0	-0.7%	\$398,679.0	8.5%	1.5%
1985	\$6,422.0	6.9%	\$438,276.0	9.9%	1.5%
1986	\$6,958.0	8.3%	\$451,979.0	3.1%	1.5%
1987	\$7,493.0	7.7%	\$516,433.0	14.3%	1.5%
1988	\$7,594.0	1.3%	\$538,510.0	4.3%	1.4%
1989	\$8,745.0	15.2%	\$592,112.0	10.0%	1.5%
1990	\$11,500.0	31.5%	\$607,236.0	2.6%	1.9%
1991	\$11,138.0	-3.1%	\$619,453.0	2.0%	1.8%
1992	\$11,143.0	0.0%	\$632,946.0	2.2%	1.8%
1993	\$12,577.0	12.9%	\$687,834.0	8.7%	1.8%
1994	\$15,225.0	21.1%	\$753,890.0	9.6%	2.0%
1995	\$14,763.0	-3.0%	\$819,495.0	8.7%	1.8%
1996	\$17,189.0	16.4%	\$899,444.0	9.8%	1.9%
1997	\$19,845.0	15.5%	\$996,528.0	10.8%	2.0%
1998	\$24,076.0	21.3%	\$1,099,012.0	10.3%	2.2%
1999	\$27,782.0	15.4%	\$1,162,356.0	5.8%	2.4%

Source: Office of Management and Budget, Budget of the United States Government, Fiscal Year 2000-01

Table 7

GROWTH OF STATE AND FEDERAL ESTATE TAXES AND COMPONENTS						
Fiscal Year	Michigan Death Tax (\$1,000s)	Percent Growth	Federal Estate Tax (millions)	Percent Growth	Federal State Death Tax Credit for Michigan	Percent Growth
1989	\$103,884	10.8%	\$8,745	15.2%	\$41,597	
1990	\$124,402	19.8%	\$11,500	31.5%	\$38,020	-8.6%
1991	\$119,581	-3.9%	\$11,138	-3.1%	\$47,465	24.8%
1992	\$207,774	73.8%	\$11,143	0.0%	\$40,366	-15.0%
1993	\$163,338	-21.4%	\$12,577	12.9%	\$58,639	45.3%
1994	\$56,981	-65.1%	\$15,225	21.1%	\$92,688	58.1%
1995	\$73,723	29.4%	\$14,763	-3.0%	\$78,632	-15.2%
1996	\$87,043	18.1%	\$17,189	16.4%	\$85,330	8.5%
1997	\$79,484	-8.7%	\$19,845	15.5%	\$76,480	-10.4%
1998	\$110,383	38.9%	\$24,076	21.3%	NA	NA
1999	\$174,891	58.4%	\$27,782	15.4%	NA	NA
2000	\$177,400	1.4%	\$30,486	9.7%	NA	NA
Estimated						
2001	\$190,000	7.1%	\$32,304	6.0%	NA	NA
2002	NA	NA	\$34,893	8.0%	NA	NA
2003	NA	NA	\$36,271	3.9%	NA	NA
2004	NA	NA	\$38,677	6.6%	NA	NA
2005	NA	NA	\$37,029	-4.3%	NA	NA
NA = not available						

Source: U.S. Internal Revenue Service and Michigan Department of Management and Budget, Comprehensive Annual Financial Report, various years; and Office of Management and Budget, Budget of the United States Government, Fiscal Year 2000-01.

Table 8

FEDERAL ESTATE TAX RETURNS FILED BY MICHIGAN RESIDENTS									
Year of Decedent's Death	# of Returns	Gross Estate Value (thousands)	Average Estate Value	# of Returns Claiming State Death Tax Credit	State Death Tax Credit (thousands)	Average State Death Tax Credit	# of Returns w/ Fed. Liability After Credits	Federal Estate Tax After Credits (thousands)	Average Federal Estate Tax After Credits
1989	1,212	\$1,852,852	\$1,528,756	761	\$41,597	\$54,661	603	\$159,567	\$264,622
1990	1,052	\$1,636,067	\$1,555,197	679	\$38,020	\$55,994	549	\$150,927	\$274,913
1991	1,187	\$1,800,625	\$1,516,955	673	\$47,465	\$70,527	448	\$158,820	\$354,509
1992	1,311	\$1,928,824	\$1,471,262	711	\$40,366	\$56,774	472	\$146,417	\$310,206
1993	1,423	\$2,256,409	\$1,585,670	837	\$58,639	\$70,059	583	\$211,396	\$362,600
1994	1,825	\$2,715,744	\$1,488,079	1,258	\$92,688	\$73,679	941	\$327,178	\$347,692
1995	1,754	\$2,878,702	\$1,641,221	841	\$78,632	\$93,498	798	\$298,180	\$373,659
1996	2,209	\$3,446,873	\$1,560,377	1,066	\$85,330	\$80,047	986	\$338,471	\$343,277
1997	2,502	\$3,502,868	\$1,400,027	1,205	\$76,480	\$63,469	1,121	\$316,942	\$282,731

Source: Internal Revenue Service, U.S. Department of Treasury

Multistate Comparison of State Death Taxes

Most states have adopted some form of the pick-up tax to tax transfers of wealth at death. As of January 1999, 33 states possessed a pick-up tax; while four levied a combination estate/pick-up tax, and 13 exhibited a combination inheritance/pick-up tax. For the 17 states that have a combination tax, taxpayers are required to pay the greater of the state's own inheritance (or estate) tax or the amount the estate may claim as a credit for state taxes. The number of states with only a pick-up tax is eight higher than in 1987, when only 25 states exclusively levied a pick-up tax.

Table 9 lists each state's type of death tax, as well as death tax revenues for 1997 and 1998 and the share of total revenues produced by death taxes. Generally, death taxes comprise a relatively small portion of state tax revenues. States that levy an inheritance tax or an estate tax in addition to the pick-up tax generally rely more on death tax revenues than do states with only a pick-up tax. In New Hampshire, which does not levy a sales tax, death taxes comprise 4.3% of tax revenues, a larger share than in any other state. New Mexico relies the least on death taxes, with only 0.3% of total tax revenues derived from the state's pick-up tax. Out of the 10 states that rely least on death tax revenue, only Mississippi imposes a death tax to supplement the pick-up tax.

In 1998, Michigan received \$110.4 million in death tax revenues. Measured against total 1998 tax collections of \$21.7 billion, Michigan ranked 44th in its reliance on death tax revenues, with 0.5% of tax revenue derived from death taxes. Michigan is often thought to compete with Florida, which has the sixth highest reliance on death taxes, for retirees. Michigan relies less on death taxes than does any other Great Lakes state, although both Ohio and Indiana levy taxes to supplement the pick-up tax.

Table 10 illustrates states' revenue from their own death taxes, as well as the Federal estate tax paid and the credit for state death taxes claimed by their estates. Not surprisingly, those states that levy a pick-up tax show a great similarity between own-source death tax revenue and the credit for state death taxes claimed by their residents. As indicated earlier, the differences between the two columns reflect timing variations and the influence of multistate estates and nonresidents. Generally, the Federal government loses 20% of possible revenue from the Federal estate tax from the presence of the credit for state death taxes, regardless of whether a state levies a pick-up tax. States levying a pick-up tax, however, tend to raise one dollar in revenue for every four dollars raised by the Federal estate tax, while states with combination taxes tend to raise more.

A rough estimate of the amount of additional revenue a state with a combination tax raises over what it would raise levying only a pick-up tax can be obtained by taking the excess of state death tax revenue over the credit for state death taxes reported on the Federal estate tax. For instance, in South Dakota state death taxes were nearly five times the amount of state death tax credit claimed by South Dakota estates in 1997. As a result, South Dakota raised more than \$17 million than it would have raised with a pick-up tax, or about \$5 for every \$1 a pick-up tax would have raised. If South Dakota, which currently levies an inheritance tax, were to have levied a pick-up tax in 1997, the state would have experienced a nearly 80% reduction in death tax revenues. In 1997, South Dakota's inheritance tax raised almost twice as much revenue as the Federal estate tax levied on estates within South Dakota raised.

Table 9

STATE DEATH TAXES, GROWTH RATES AND SHARE OF TOTAL REVENUE, BY STATE							
State	Type of Tax*	1998 Death Tax Revenue (\$1,000s)	1997 Death Tax Revenue (\$1,000s)	Growth	1998 Total Tax (\$1,000s)	1998 Death Tax Share of All Taxes	Rank
Alabama	P	\$35,594	\$44,511	-20.0%	\$5,734,128	0.6%	41
Alaska	P	\$5,466	\$1,666	228.1%	\$1,186,235	0.5%	46
Arizona	P	\$64,490	\$66,973	-3.7%	\$6,949,270	0.9%	30
Arkansas	P	\$32,684	\$18,555	76.1%	\$4,056,582	0.8%	32
California	P	\$787,383	\$756,777	4.0%	\$67,713,433	1.2%	27
Colorado	P	\$108,324	\$34,641	212.7%	\$5,898,349	1.8%	12
Connecticut	I	\$278,962	\$226,837	23.0%	\$9,393,604	3.0%	4
Delaware	P	\$44,626	\$31,755	40.5%	\$1,981,473	2.3%	7
Florida	P	\$577,530	\$536,524	7.6%	\$22,513,115	2.6%	6
Georgia	P	\$84,809	\$60,296	40.7%	\$11,589,495	0.7%	36
Hawaii	P	\$19,645	\$22,169	-11.4%	\$3,176,246	0.6%	42
Idaho	P	\$8,624	\$4,052	112.8%	\$2,057,378	0.4%	49
Illinois	P	\$250,434	\$199,423	25.6%	\$19,771,284	1.3%	23
Indiana	I	\$124,686	\$115,363	8.1%	\$9,747,426	1.3%	22
Iowa	I	\$90,963	\$88,213	3.1%	\$4,802,531	1.9%	11
Kansas	P	\$88,651	\$76,029	16.6%	\$4,647,921	1.9%	10
Kentucky	I	\$105,538	\$95,287	10.8%	\$7,115,149	1.5%	16
Louisiana	I	\$89,786	\$77,735	15.5%	\$6,082,026	1.5%	17
Maine	P	\$40,536	\$14,771	174.4%	\$2,369,820	1.7%	13
Maryland	I	\$124,758	\$105,967	17.7%	\$9,190,482	1.4%	19
Massachusetts	P	\$191,336	\$202,707	-5.6%	\$14,488,496	1.3%	21
MICHIGAN	P	\$110,383	\$79,484	38.9%	\$21,692,742	0.5%	44
Minnesota	P	\$61,612	\$48,465	27.1%	\$11,503,928	0.5%	43
Mississippi	E	\$21,107	\$12,487	69.0%	\$4,343,435	0.5%	45
Missouri	P	\$99,337	\$81,160	22.4%	\$8,222,326	1.2%	25
Montana	I	\$16,865	\$14,562	15.8%	\$1,331,895	1.3%	24
Nebraska	I	\$18,233	\$15,231	19.7%	\$2,633,216	0.7%	39
Nevada	P	\$44,801	\$27,666	61.9%	\$3,228,206	1.4%	18
New Hampshire	I	\$43,079	\$40,557	6.2%	\$1,008,518	4.3%	1
New Jersey	I	\$337,680	\$313,447	7.7%	\$15,604,971	2.2%	8
New Mexico	P	\$12,067	\$17,838	-32.4%	\$3,574,537	0.3%	50
New York	E	\$1,022,208	\$889,323	14.9%	\$36,154,533	2.8%	5
North Carolina	P	\$164,925	\$144,761	13.9%	\$13,869,426	1.2%	26
North Dakota	P	\$4,710	\$4,807	-2.0%	\$1,078,375	0.4%	48
Ohio	E	\$114,789	\$101,975	12.6%	\$17,642,836	0.7%	40
Oklahoma	E	\$81,385	\$80,514	1.1%	\$5,300,829	1.5%	15
Oregon	P	\$40,995	\$33,856	21.1%	\$4,999,091	0.8%	31
Pennsylvania	I	\$710,903	\$615,495	15.5%	\$20,629,483	3.4%	2
Rhode Island	P	\$20,102	\$12,614	59.4%	\$1,783,913	1.1%	29
South Carolina	P	\$45,086	\$28,174	60.0%	\$5,683,148	0.8%	33
South Dakota	I	\$25,793	\$21,488	20.0%	\$833,662	3.1%	3
Tennessee	I	\$113,119	\$60,558	86.8%	\$6,996,120	1.6%	14
Texas	P	\$326,923	\$207,486	57.6%	\$24,629,000	1.3%	20
Utah	P	\$25,417	\$10,282	147.2%	\$3,457,679	0.7%	35
Vermont	P	\$19,157	\$18,015	6.3%	\$957,656	2.0%	9
Virginia	P	\$122,304	\$92,163	32.7%	\$10,542,966	1.2%	28
Washington	P	\$82,203	\$88,469	-7.1%	\$11,806,170	0.7%	38
West Virginia	P	\$13,211	\$17,367	-23.9%	\$3,011,990	0.4%	47
Wisconsin	P	\$80,111	\$50,825	57.6%	\$11,149,754	0.7%	37
Wyoming	P	\$6,677	\$3,721	79.4%	\$855,716	0.8%	34
Total	P	\$6,940,007	\$5,913,041	17.4%	\$474,990,564	1.5%	

* As of January 1999. Key: I-Inheritance/Pick-up Tax; P-Pick-up Tax only; E-Estate Tax.

Source: Bureau of the Census, U.S. Dept. of Commerce and National Conference of State Legislatures

Table 10

RELATIONSHIP OF STATE DEATH TAXES AND FEDERAL ESTATE TAX, BY STATE - 1997						
State	State Death Tax Revenue (\$1,000s)	Federal Estate Taxes (\$1,000s)	State Death Tax Credit (\$1,000s)	Share of Death Tax Revenue Composed of Pick- up Tax	Ratio of State Revenue to Federal Revenue	% Reduction in Federal Revenue from State Death Tax Credit
Alabama	\$44,511	\$150,549	\$35,924	80.7%	29.6%	19.3%
Alaska	\$1,666	\$3,622	\$1,075	64.5%	46.0%	22.9%
Arizona	\$66,973	\$265,527	\$68,024	101.6%	25.2%	20.4%
Arkansas	\$18,555	\$104,500	\$24,942	134.4%	17.8%	19.3%
California	\$756,777	\$2,664,393	\$726,541	96.0%	28.4%	21.4%
Colorado	\$34,641	\$118,014	\$28,713	82.9%	29.4%	19.6%
Connecticut	\$226,837	\$328,119	\$82,020	36.2%	69.1%	20.0%
Delaware	\$31,755	\$75,230	\$20,985	66.1%	42.2%	21.8%
Florida	\$536,524	\$1,855,401	\$476,649	88.8%	28.9%	20.4%
Georgia	\$60,296	\$238,527	\$56,562	93.8%	25.3%	19.2%
Hawaii	\$22,169	\$87,674	\$20,405	92.0%	25.3%	18.9%
Idaho	\$4,052	\$36,219	\$6,124	151.1%	11.2%	14.5%
Illinois	\$199,423	\$877,290	\$214,521	107.6%	22.7%	19.6%
Indiana	\$115,363	\$248,817	\$61,674	53.5%	46.4%	19.9%
Iowa	\$88,213	\$111,978	\$31,763	36.0%	78.8%	22.1%
Kansas	\$76,029	\$148,935	\$35,702	47.0%	51.0%	19.3%
Kentucky	\$95,287	\$227,352	\$64,520	67.7%	41.9%	22.1%
Louisiana	\$77,735	\$209,565	\$48,266	62.1%	37.1%	18.7%
Maine	\$14,771	\$138,986	\$38,100	257.9%	10.6%	21.5%
Maryland	\$105,967	\$312,826	\$74,459	70.3%	33.9%	19.2%
Massachusetts	\$202,707	\$409,367	\$102,149	50.4%	49.5%	20.0%
MICHIGAN	\$79,484	\$316,942	\$76,480	96.2%	25.1%	19.4%
Minnesota	\$48,465	\$219,590	\$56,050	115.7%	22.1%	20.3%
Mississippi	\$12,487	\$47,978	\$11,019	88.2%	26.0%	18.7%
Missouri	\$81,160	\$326,156	\$88,730	109.3%	24.9%	21.4%
Montana	\$14,562	\$23,101	\$4,900	33.6%	63.0%	17.5%
Nebraska	\$15,231	\$62,911	\$17,228	113.1%	24.2%	21.5%
Nevada	\$27,666	\$112,327	\$24,419	88.3%	24.6%	17.9%
New Hampshire	\$40,557	\$63,145	\$15,719	38.8%	64.2%	19.9%
New Jersey	\$313,447	\$636,373	\$151,775	48.4%	49.3%	19.3%
New Mexico	\$17,838	\$47,784	\$12,724	71.3%	37.3%	21.0%
New York	\$889,323	\$1,711,852	\$499,702	56.2%	52.0%	22.6%
North Carolina	\$144,761	\$268,125	\$63,243	43.7%	54.0%	19.1%
North Dakota	\$4,807	\$14,490	\$3,522	73.3%	33.2%	19.6%
Ohio	\$101,975	\$557,478	\$139,688	137.0%	18.3%	20.0%
Oklahoma	\$80,514	\$118,838	\$32,834	40.8%	67.8%	21.6%
Oregon	\$33,856	\$149,408	\$36,685	108.4%	22.7%	19.7%
Pennsylvania	\$615,495	\$689,533	\$174,767	28.4%	89.3%	20.2%
Rhode Island	\$12,614	\$64,333	\$15,264	121.0%	19.6%	19.2%
South Carolina	\$28,174	\$109,689	\$26,275	93.3%	25.7%	19.3%
South Dakota	\$21,488	\$11,640	\$4,385	20.4%	184.6%	27.4%
Tennessee	\$60,558	\$180,221	\$46,567	76.9%	33.6%	20.5%
Texas	\$207,486	\$979,199	\$269,653	130.0%	21.2%	21.6%
Utah	\$10,282	\$43,593	\$10,976	106.7%	23.6%	20.1%
Vermont	\$18,015	\$59,371	\$14,482	80.4%	30.3%	19.6%
Virginia	\$92,163	\$407,123	\$109,085	118.4%	22.6%	21.1%
Washington	\$88,469	\$324,857	\$88,977	100.6%	27.2%	21.5%
West Virginia	\$17,367	\$53,829	\$12,377	71.3%	32.3%	18.7%
Wisconsin	\$50,825	\$266,751	\$72,303	142.3%	19.1%	21.3%
Wyoming	\$3,721	\$8,933	\$2,377	63.9%	41.7%	21.0%
Total	\$5,913,041	\$16,488,461	\$4,301,324	72.7%	35.9%	20.7%

Source: Bureau of the Census, U.S. Dept. of Commerce

Examination of South Dakota's inheritance tax illustrates why the state is able to raise much more revenue than it would under a pick-up tax. Effective July 1, 2000, South Dakota began a six-year phase-in of changes to the state's inheritance tax. South Dakota's inheritance tax defines six classes of beneficiaries in addition to spouses. Prior to the changes, the South Dakota inheritance tax applied marginal tax rates of 6% on bequests to lineal descendants (son, daughter, etc.) as small as \$50,000, and marginal rates of 7.5% for bequests of \$100,000 or more. Different classes of beneficiaries faced marginal rates as high as 30% and exemption amounts as little as \$0. The enacted changes, however, affect only the brackets to which the tax rates are applied, apply only to bequests to lineal descendants, and eliminate only the liability for bequests to these individuals that do not exceed \$100,000. As a result, South Dakota will likely continue to receive significantly more revenue from its inheritance tax than it would from a pick-up tax.

Traditionally, death taxes have been evaluated on a per capita basis. Table 11 reports state death taxes on a per capita basis for 1992 and 1998. Nationally, death taxes per capita rose from \$17.62 in 1992, to \$25.73 in 1998. This change, however, represents a growth in the tax base rather than the proposition that movement away from combination taxes does not result in less revenue. Generally, states with pick-up taxes exhibit lower per capita death tax burdens. For example, Michigan levied an inheritance tax in 1992, when death taxes per capita averaged \$22.07, while under the pick-up tax in 1998 death taxes averaged \$11.24 per capita. Consequently, the move to a pick-up tax has approximately halved the per capita tax burden of the death taxes on Michigan residents. Adjustments for inflation, tax changes, and growth in the tax base all would cause the per capita death tax burden in Michigan in 1998 to be even lower. Connecticut, which levies an inheritance tax in addition to the pick-up tax, exhibited the highest death tax burden per capita in 1998, while New Mexico exhibited the lowest burden. Michigan's rank fell from 10th in 1992, under the inheritance tax, to 40th in 1998, under a pick-up tax.

While death taxes per capita are a more prevalent measure of death taxes than are death taxes per death, the majority of states levy taxes that are generally regarded as taxes upon decedents. Furthermore, death rates are not spread uniformly across the country. For example, populations in states such as Utah and Alaska exhibit median ages of 27 and 31, respectively, while in states such as Florida and West Virginia, the median age is almost 39. States with older populations will display higher death rates and thus exhibit a higher death tax burden per capita than will a state with an identical, but younger, total population. As a result, Table 12 provides average death taxes per death for states in both 1992 and 1998.

In 1998, Connecticut exhibited the highest death tax burden on a per death basis, just as under the per capita measure, while West Virginia displayed the lowest. Michigan's rank in death tax burden per death was slightly lower than under the per capita measure, falling from 40th to 41st. Michigan's state death tax burden fell 50% between 1992 and 1998, from approximately \$2,595 to about \$1,305. In 1998, the state death tax burden per death nationally averaged slightly less than \$3,000, up nearly 50% from 1992. Adjusted for inflation, the increase in the national average state death tax burden per death rose 26% between 1992 and 1998, while in Michigan the burden fell 57% as a result of the change from an inheritance tax to a pick-up tax. Michigan's 1998 death tax burden per death was approximately 43.5% of the average state death tax burden per death nationally.

Table 11

STATE DEATH AND GIFT TAXES PER CAPITA: 1992 AND 1998								
State	State Death & Gift Taxes, 1992 (thousands)	1992 Population	State Death Taxes Per Capita 1992	1992 Rank	State Death & Gift Taxes, 1998 (thousands)	1998 Population	State Death Taxes Per Capita 1998	1998 Rank
Alabama	\$30,279	4,110,763	\$7.37	34	\$35,594	4,351,037	\$8.18	45
Alaska	\$1,029	562,357	\$1.83	50	\$5,466	615,205	\$8.88	44
Arizona	\$25,652	3,812,793	\$6.73	39	\$64,490	4,667,277	\$13.82	34
Arkansas	\$8,587	2,388,045	\$3.60	48	\$32,684	2,538,202	\$12.88	36
California	\$447,844	30,641,590	\$14.62	20	\$787,383	32,682,794	\$24.09	19
Colorado	\$34,325	3,423,840	\$10.03	27	\$108,324	3,968,967	\$27.29	14
Connecticut	\$190,659	3,268,285	\$58.34	1	\$278,962	3,272,563	\$85.24	1
Delaware	\$38,297	684,922	\$55.91	2	\$44,626	744,066	\$59.98	2
Florida	\$281,368	13,407,110	\$20.99	12	\$577,530	14,908,230	\$38.74	6
Georgia	\$37,584	6,693,107	\$5.62	42	\$84,809	7,636,522	\$11.11	41
Hawaii	\$16,416	1,097,880	\$14.95	18	\$19,645	1,190,472	\$16.50	30
Idaho	\$21,706	1,061,356	\$20.45	14	\$8,624	1,230,923	\$7.01	49
Illinois	\$120,553	11,580,591	\$10.41	26	\$250,434	12,069,774	\$20.75	23
Indiana	\$86,969	5,647,704	\$15.40	17	\$124,686	5,907,617	\$21.11	21
Iowa	\$78,030	2,807,088	\$27.80	7	\$90,963	2,861,025	\$31.79	12
Kansas	\$52,540	2,490,576	\$21.10	11	\$88,651	2,638,667	\$33.60	9
Kentucky	\$77,355	3,724,218	\$20.77	13	\$105,538	3,934,310	\$26.83	15
Louisiana	\$46,158	4,244,242	\$10.88	25	\$89,786	4,362,758	\$20.58	24
Maine	\$8,551	1,229,485	\$6.95	35	\$40,536	1,247,554	\$32.49	10
Maryland	\$80,331	4,866,261	\$16.51	16	\$124,758	5,130,072	\$24.32	18
Massachusetts	\$260,215	5,987,585	\$43.46	4	\$191,336	6,144,407	\$31.14	13
MICHIGAN	\$207,774	9,413,823	\$22.07	10	\$110,383	9,820,231	\$11.24	40
Minnesota	\$22,312	4,470,897	\$4.99	43	\$61,612	4,726,411	\$13.04	35
Mississippi	\$10,851	2,597,603	\$4.18	44	\$21,107	2,751,335	\$7.67	46
Missouri	\$46,711	5,176,021	\$9.02	28	\$99,337	5,437,562	\$18.27	27
Montana	\$11,338	819,065	\$13.84	22	\$16,865	879,533	\$19.17	26
Nebraska	\$6,619	1,591,918	\$4.16	45	\$18,233	1,660,772	\$10.98	42
Nevada	\$8,433	1,323,710	\$6.37	41	\$44,801	1,743,772	\$25.69	16
New Hampshire	\$26,275	1,113,206	\$23.60	9	\$43,079	1,185,823	\$36.33	7
New Jersey	\$224,854	7,796,120	\$28.84	6	\$337,680	8,095,542	\$41.71	5
New Mexico	\$11,623	1,565,467	\$7.42	32	\$12,067	1,733,535	\$6.96	50
New York	\$747,639	18,063,016	\$41.39	5	\$1,022,208	18,159,175	\$56.29	4
North Carolina	\$94,924	6,728,765	\$14.11	21	\$164,925	7,545,828	\$21.86	20
North Dakota	\$2,394	626,871	\$3.82	47	\$4,710	637,808	\$7.38	47
Ohio	\$75,877	10,990,183	\$6.90	36	\$114,789	11,237,752	\$10.21	43
Oklahoma	\$46,873	3,177,403	\$14.75	19	\$81,385	3,339,478	\$24.37	17
Oregon	\$20,427	2,972,662	\$6.87	37	\$40,995	3,282,055	\$12.49	37
Pennsylvania	\$537,731	11,979,144	\$44.89	3	\$710,903	12,002,329	\$59.23	3
Rhode Island	\$17,730	995,538	\$17.81	15	\$20,102	987,704	\$20.35	25
South Carolina	\$26,145	3,536,625	\$7.39	33	\$45,086	3,839,578	\$11.74	39
South Dakota	\$18,996	702,924	\$27.02	8	\$25,793	730,789	\$35.29	8
Tennessee	\$42,414	4,999,677	\$8.48	29	\$113,119	5,432,679	\$20.82	22
Texas	\$141,007	17,567,071	\$8.03	30	\$326,923	19,712,389	\$16.58	29
Utah	\$3,975	1,804,942	\$2.20	49	\$25,417	2,100,562	\$12.10	38
Vermont	\$6,948	571,443	\$12.16	23	\$19,157	590,579	\$32.44	11
Virginia	\$48,791	6,211,014	\$7.86	31	\$122,304	6,789,225	\$18.01	28
Washington	\$34,456	5,089,319	\$6.77	38	\$82,203	5,687,832	\$14.45	32
West Virginia	\$7,410	1,806,487	\$4.10	46	\$13,211	1,811,688	\$7.29	48
Wisconsin	\$57,664	4,995,430	\$11.54	24	\$80,111	5,222,124	\$15.34	31
Wyoming	\$3,068	460,346	\$6.66	40	\$6,677	480,045	\$13.91	33
Total	\$4,455,707	252,876,488	\$17.62		\$6,940,007	269,726,577	\$25.73	

Source: Bureau of the Census, U.S. Dept. of Commerce

Table 12

STATE DEATH AND GIFT TAXES PER DEATH 1992 and 1998								
State	State Death & Gift Taxes, 1992 (thousands)	1992 Deaths	State Death Taxes Per Death 1992	1992 Rank	State Death & Gift Taxes, 1998 (thousands)	1998 Deaths	State Death Taxes Per Death 1998	1998 Rank
Alabama	\$30,279	40,396	\$749.55	41	\$35,594	43,355	\$820.99	47
Alaska	\$1,029	2,128	\$483.55	44	\$5,466	2,604	\$2,099.08	30
Arizona	\$25,652	29,914	\$857.52	36	\$64,490	37,750	\$1,708.34	36
Arkansas	\$8,587	25,327	\$339.05	50	\$32,684	27,408	\$1,192.50	42
California	\$447,844	215,966	\$2,073.68	17	\$787,383	224,071	\$3,513.99	12
Colorado	\$34,325	22,543	\$1,522.65	23	\$108,324	26,219	\$4,131.51	7
Connecticut	\$190,659	28,355	\$6,724.00	1	\$278,962	29,514	\$9,451.85	1
Delaware	\$38,297	6,013	\$6,369.03	2	\$44,626	6,600	\$6,761.52	2
Florida	\$281,368	139,374	\$2,018.80	18	\$577,530	157,354	\$3,670.26	11
Georgia	\$37,584	53,092	\$707.90	42	\$84,809	60,363	\$1,404.98	39
Hawaii	\$16,416	6,809	\$2,410.93	13	\$19,645	7,463	\$2,632.32	19
Idaho	\$21,706	7,884	\$2,753.17	11	\$8,624	9,093	\$948.42	45
Illinois	\$120,553	103,517	\$1,164.57	27	\$250,434	104,093	\$2,405.87	21
Indiana	\$86,969	50,809	\$1,711.68	19	\$124,686	53,341	\$2,337.53	23
Iowa	\$78,030	27,212	\$2,867.48	9	\$90,963	28,061	\$3,241.62	15
Kansas	\$52,540	22,375	\$2,348.16	14	\$88,651	23,736	\$3,734.88	9
Kentucky	\$77,355	35,575	\$2,174.42	15	\$105,538	37,725	\$2,797.56	18
Louisiana	\$46,158	38,369	\$1,203.00	26	\$89,786	40,449	\$2,219.73	26
Maine	\$8,551	11,148	\$767.04	39	\$40,536	11,924	\$3,399.53	14
Maryland	\$80,331	38,687	\$2,076.43	16	\$124,758	41,947	\$2,974.18	17
Massachusetts	\$260,215	54,217	\$4,799.51	3	\$191,336	55,142	\$3,469.88	13
MICHIGAN	\$207,774	80,057	\$2,595.33	12	\$110,383	84,559	\$1,305.40	41
Minnesota	\$22,312	35,514	\$628.26	43	\$61,612	37,369	\$1,648.75	37
Mississippi	\$10,851	26,012	\$417.15	47	\$21,107	27,548	\$766.19	49
Missouri	\$46,711	51,502	\$906.97	33	\$99,337	54,454	\$1,824.24	33
Montana	\$11,338	7,147	\$1,586.40	21	\$16,865	7,883	\$2,139.41	28
Nebraska	\$6,619	14,919	\$443.66	45	\$18,233	15,349	\$1,187.89	43
Nevada	\$8,433	9,877	\$853.80	37	\$44,801	13,907	\$3,221.47	16
New Hampshire	\$26,275	8,492	\$3,094.09	8	\$43,079	9,427	\$4,569.75	6
New Jersey	\$224,854	71,137	\$3,160.86	7	\$337,680	71,462	\$4,725.31	5
New Mexico	\$11,623	11,122	\$1,045.05	29	\$12,067	13,030	\$926.09	46
New York	\$747,639	166,668	\$4,485.80	4	\$1,022,208	155,578	\$6,570.39	3
North Carolina	\$94,924	59,777	\$1,587.97	20	\$164,925	66,894	\$2,465.47	20
North Dakota	\$2,394	5,643	\$424.24	46	\$4,710	5,817	\$809.70	48
Ohio	\$75,877	101,202	\$749.76	40	\$114,789	105,095	\$1,092.24	44
Oklahoma	\$46,873	30,698	\$1,526.91	22	\$81,385	33,858	\$2,403.72	22
Oregon	\$20,427	25,358	\$805.54	38	\$40,995	28,923	\$1,417.38	38
Pennsylvania	\$537,731	123,765	\$4,344.77	5	\$710,903	125,991	\$5,642.49	4
Rhode Island	\$17,730	4,588	\$3,864.43	6	\$20,102	9,668	\$2,079.23	31
South Carolina	\$26,145	30,402	\$859.98	35	\$45,086	34,384	\$1,311.25	40
South Dakota	\$18,996	6,702	\$2,834.38	10	\$25,793	6,930	\$3,721.93	10
Tennessee	\$42,414	46,908	\$904.20	34	\$113,119	53,133	\$2,128.98	29
Texas	\$141,007	128,566	\$1,096.77	28	\$326,923	142,743	\$2,290.29	25
Utah	\$3,975	9,640	\$412.34	48	\$25,417	11,859	\$2,143.27	27
Vermont	\$6,948	4,681	\$1,484.30	24	\$19,157	4,963	\$3,859.96	8
Virginia	\$48,791	49,347	\$988.73	30	\$122,304	53,254	\$2,296.62	24
Washington	\$34,456	37,666	\$914.78	32	\$82,203	42,385	\$1,939.44	32
West Virginia	\$7,410	20,267	\$365.62	49	\$13,211	19,674	\$671.50	50
Wisconsin	\$57,664	42,916	\$1,343.65	25	\$80,111	45,788	\$1,749.61	34
Wyoming	\$3,068	3,281	\$935.08	31	\$6,677	3,826	\$1,745.16	35
Total	\$4,455,707	2,173,564	\$2,049.95		\$6,940,007	2,313,963	\$2,999.19	

Source: Bureau of the Census, U.S. Dept. of Commerce

Compared with [Table 11](#), the data in [Table 12](#) provide a more accurate reflection of the state tax burden on estates, but fail to account for different estate values and the taxability of different estates. Unfortunately, data are not available on the number of estates taxed under various state death taxes. On a state-by-state basis, only the number of estates filing a Federal return, claiming allowable deductions, claiming a credit for state death taxes, or reporting a Federal estate liability, is available.

INCIDENCE OF DEATH TAXES

Governments have taken the opportunity death taxes afford to enhance the progressivity of the tax system. As a result, large estates account for the overwhelming majority of death taxes, particularly at the Federal level. As described earlier, estates with a Federal estate tax liability comprise only the largest 0.8% of all estates. Death taxes have traditionally been evaluated upon a per capita basis, in which case more than 20.8% of Federal estate taxes are attributable to the estates of 0.0001% of the population. (See [Table 13](#).)

In 1997, the most recent year for which data are available, 90,006 Federal estate tax returns (out of 2.3 million deaths) were filed for estates reporting a gross value of \$600,000 or more, the minimum size to be taxable that year. As a result of the credits and deductions available, 52.3% of those estates (47,105) were not taxable under the Federal estate tax. The remaining 47.7% of the estates (42,901) faced Federal estate tax liabilities totaling \$16.6 billion. The percentage of estates that are required to file a Federal return but exhibit no liability varies with estate sizes, with 60.0% of estates valued at less than \$1 million exhibiting no liability, while only 21.1% of estates valued at \$20 million or more reported zero Federal estate tax liability. (See [Table 14](#).)

Distribution and Composition of Federal Estate Tax Liabilities

Large estates account for the majority of Federal estate tax revenues, despite comprising a small minority of the number of taxable estates. Of the 42,901 estates with Federal estate tax liabilities in 1997, only 0.8% (329) were valued at \$20 million or more ([Figure 2](#)), while taxes on those estates represented 20.8% of all Federal estate taxes (\$3.5 billion). The largest 2.2% of all estates with liabilities provided 32.6%, almost one-third, of all Federal estate taxes. Among estates with Federal estate tax liabilities, estates valued between \$600,000 and \$1 million comprised 44.3% (19,006) of the total number of estates and provided only 5.0% of all Federal estate taxes (\$0.8 billion).

[Table 13](#) also illustrates many of the driving forces behind the growth in death tax revenues during the last decade. The share of all taxable estates comprising estates valued at \$20 million or more fell slightly between 1989 and 1997, from 0.9% to 0.8%, even though the number of estates in this category grew 63.7%. The share of all taxable estates comprising estates valued between \$600,000 and \$1,000,000 rose between 1989 and 1997, from 41.3% to 44.3%, and the number of estates in this category increased 98.6%. The increase in the number of deaths per year over the period would account for an increase of approximately 7.4% in the number of returns. Over the 1989-1997 period, economic growth and stock market growth increased the number of smaller estates reporting a liability under the Federal estate tax more rapidly than the number of larger estates increased.

Table 13

DISTRIBUTION OF FEDERAL ESTATE AND GIFT TAXES, 1989 AND 1997

1997

Estate Size	Gross Estate				Net Estate Tax	Percent of Total	Average Estate Value	Average Estate Tax
	Number	Percent of Total	Value	Percent of Total				
\$600,000 under \$1,000,000	19,006	44.3%	\$15,315,682	15.7%	\$834,874	5.0%	\$805,834	\$43,927
\$1,000,000 under \$2,500,000	17,606	41.0%	\$26,066,118	26.7%	\$4,293,847	25.8%	\$1,480,525	\$243,885
\$2,500,000 under \$5,000,000	3,954	9.2%	\$13,567,471	13.9%	\$3,409,351	20.5%	\$3,431,328	\$862,254
\$5,000,000 under \$10,000,000	1,414	3.3%	\$9,954,276	10.2%	\$2,668,513	16.0%	\$7,039,799	\$1,887,209
\$10,000,000 under \$20,000,000	592	1.4%	\$8,097,443	8.3%	\$1,966,144	11.8%	\$13,678,113	\$3,321,189
\$20,000,000 or more	329	0.8%	\$24,649,473	25.2%	\$3,464,651	20.8%	\$74,922,410	\$10,530,854
Total	42,901	100.0%	\$97,650,463	100.0%	\$16,637,380	100.0%	\$2,276,182	\$387,809

1989

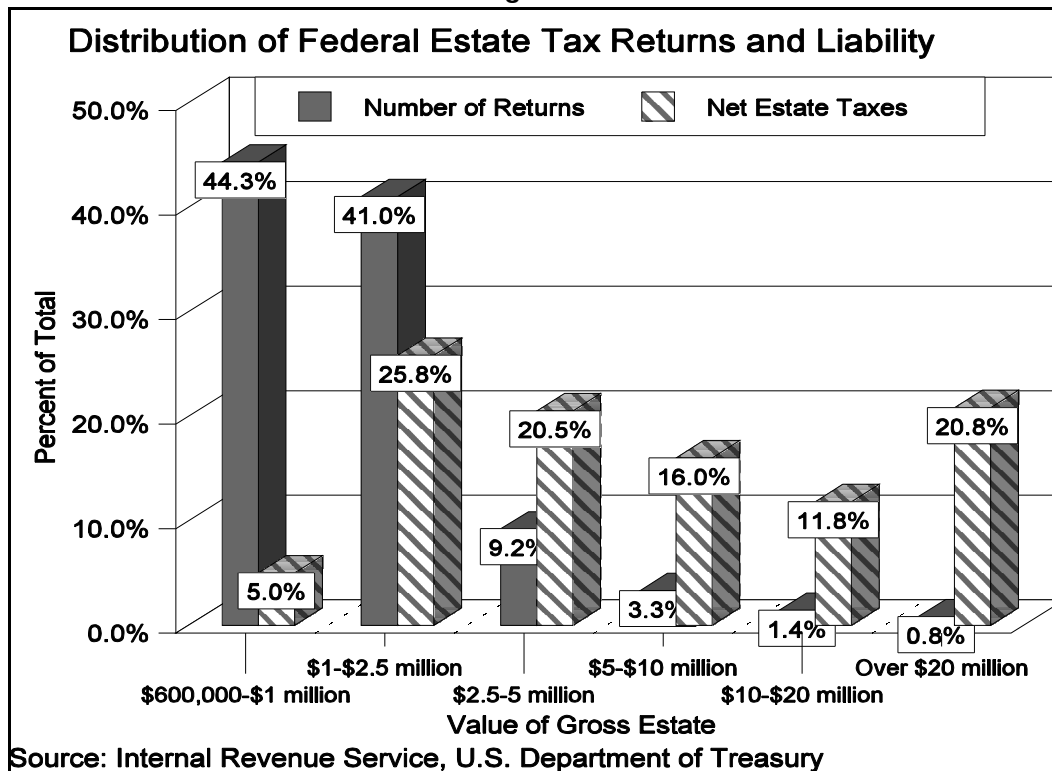
Estate Size	Gross Estate				Net Estate Tax	Percent of Total	Average Estate Value	Average Estate Tax
	Number	Percent of Total	Value	Percent of Total				
\$600,000 under \$1,000,000	9,569	41.3%	\$7,746,132	15.1%	\$396,550	4.4%	\$809,503	\$41,441
\$1,000,000 under \$2,500,000	9,920	42.8%	\$14,683,302	28.6%	\$2,229,427	24.7%	\$1,480,172	\$224,741
\$2,500,000 under \$5,000,000	2,175	9.4%	\$7,421,649	14.4%	\$1,719,846	19.0%	\$3,412,252	\$790,734
\$5,000,000 under \$10,000,000	949	4.1%	\$6,424,488	12.5%	\$1,539,947	17.1%	\$6,769,745	\$1,622,705
\$10,000,000 under \$20,000,000	344	1.5%	\$4,678,599	9.1%	\$1,146,441	12.7%	\$13,600,578	\$3,332,677
\$20,000,000 or more	201	0.9%	\$10,470,790	20.4%	\$1,996,467	22.1%	\$52,093,483	\$9,932,672
Total	23,158	100.0%	\$51,424,960	100.0%	\$9,028,678	100.0%	\$2,220,613	\$389,873

Source: U.S. Internal Revenue Service

Table 14

DISTRIBUTION OF STATE DEATH TAX CREDIT UNDER THE FEDERAL ESTATE AND GIFT TAXES, 1997								
All Returns								
Estate Size	Gross Estate				State Death Tax Credit			
	Number	% of Total	Value	% of Total	Number	% of Total	Value	% of Total
\$600,000 under \$1,000,000	47,541	52.8%	\$36,512,272	22.5%	23,665	48.2%	\$423,521	9.8%
\$1,000,000 under \$2,500,000	32,380	36.0%	\$47,602,635	29.3%	18,709	38.1%	\$930,008	21.5%
\$2,500,000 under \$5,000,000	6,686	7.4%	\$22,787,232	14.0%	4,290	8.7%	\$647,306	15.0%
\$5,000,000 under \$10,000,000	2,178	2.4%	\$15,044,362	9.3%	1,495	3.0%	\$582,942	13.5%
\$10,000,000 under \$20,000,000	804	0.9%	\$11,012,699	6.8%	609	1.2%	\$525,694	12.1%
\$20,000,000 or more	417	0.5%	\$29,291,513	18.1%	334	0.7%	\$1,218,719	28.2%
Total	90,006	100.0%	\$162,250,712	100.0%	49,102	100.0%	\$4,328,189	100.0%
All Taxable Returns								
Estate Size	Gross Estate				State Death Tax Credit			
	Number	% of Total	Value	% of Total	Number	% of Total	Value	% of Total
\$600,000 under \$1,000,000	19,006	21.1%	\$15,315,682	9.4%	18,185	37.0%	\$374,721	8.7%
\$1,000,000 under \$2,500,000	17,606	19.6%	\$26,066,118	16.1%	17,204	35.0%	\$910,702	21.0%
\$2,500,000 under \$5,000,000	3,954	4.4%	\$13,567,471	8.4%	3,912	8.0%	\$642,083	14.8%
\$5,000,000 under \$10,000,000	1,414	1.6%	\$9,954,276	6.1%	1,391	2.8%	\$581,382	13.4%
\$10,000,000 under \$20,000,000	592	0.7%	\$8,097,443	5.0%	578	1.2%	\$525,204	12.1%
\$20,000,000 or more	329	0.4%	\$24,649,473	15.2%	323	0.7%	\$1,218,505	28.2%
Total	42,901	47.7%	\$97,650,463	60.2%	41,593	84.7%	\$4,252,596	98.3%
All Nontaxable Returns								
Estate Size	Gross Estate				State Death Tax Credit			
	Number	% of Total	Value	% of Total	Number	% of Total	Value	% of Total
\$600,000 under \$1,000,000	28,535	31.7%	\$21,196,591	13.1%	5,479	11.2%	\$48,800	1.1%
\$1,000,000 under \$2,500,000	14,774	16.4%	\$21,536,517	13.3%	1,505	3.1%	\$19,306	0.4%
\$2,500,000 under \$5,000,000	2,732	3.0%	\$9,219,761	5.7%	378	0.8%	\$5,223	0.1%
\$5,000,000 under \$10,000,000	764	0.8%	\$5,090,086	3.1%	104	0.2%	\$1,560	0.0%
\$10,000,000 under \$20,000,000	213	0.2%	\$2,915,256	1.8%	31	0.1%	\$490	0.0%
\$20,000,000 or more	88	0.1%	\$4,642,040	2.9%	11	0.0%	\$214	0.0%
Total	47,105	52.3%	\$64,600,250	39.8%	7,509	15.3%	\$75,593	1.7%
Source: U.S. Internal Revenue Service								

Figure 2



Average estate values illustrate how economic growth over the 1989-1997 period has affected Federal estate tax liabilities. Among taxable estates valued between \$600,000 and \$1,000,000, the average estate value fell 0.4%, from \$809,503 to \$805,834, while average Federal estate tax liability increased 6.0%, from \$41,441 to \$43,927. For estates valued between \$1 million and \$5 million, average estate values grew only 0.6%, while average Federal estate tax liability rose 9.4%. Among estates valued at \$20 million or more, however, the average value of an estate rose 43.8%, from \$52.1 million to \$74.9 million, while average Federal estate tax liability increased only 6.0%. As seen in [Table 13](#), smaller estates comprised a larger share of the value of all taxable estates and Federal estate taxes in 1997 than in 1989, and correspondingly the shares represented by the largest estates fell. Consequently, most growth in Federal estate tax revenues over the 1989-1997 period is attributable to increases in the number of smaller taxable estates, not growth in the liabilities for individual estates.

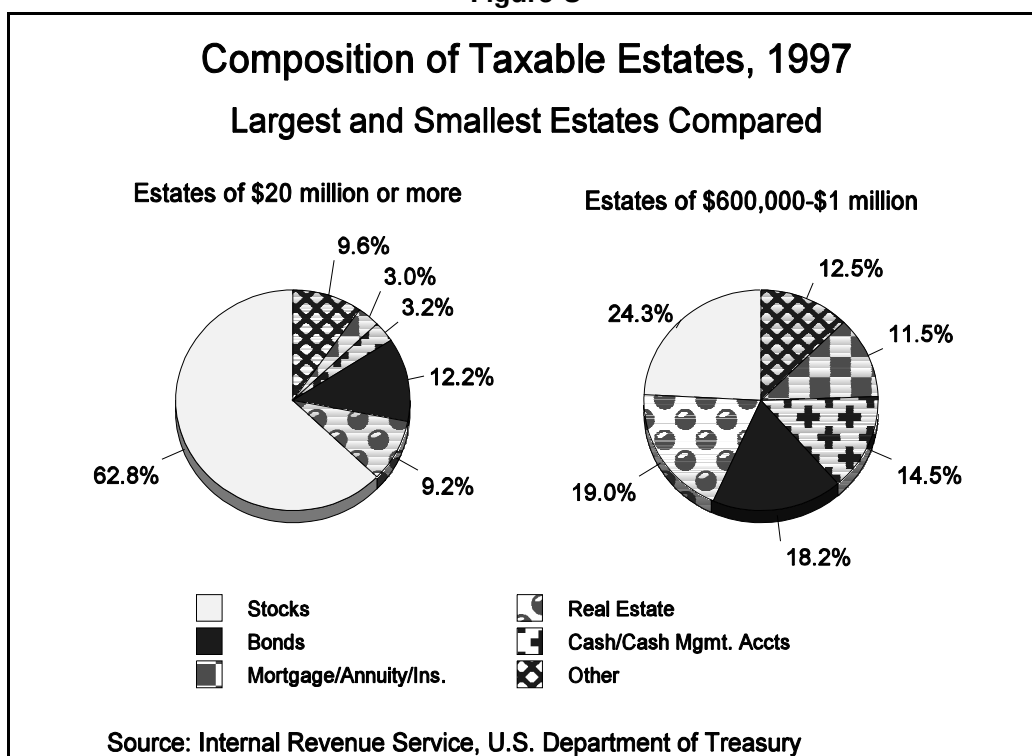
A small portion of Federal estate tax revenues is derived from the estates of nonresident aliens. In 1996, the most recent year for which information regarding these estates is available, 285 nonresident alien estates paid \$22.6 million in Federal estate taxes, up 36.7% from the 244 nonresident alien estates that paid \$16.5 million in Federal estate taxes in 1995. Federal estate taxes upon the estates of nonresident aliens comprised 0.2% of Federal estate tax revenues in 1996.

As indicated above, the gross value of an estate comprises a variety of components, including real estate, stock and bond holdings, cash, insurance policies, business and farm assets, mortgages, and other intangible assets. Estates also are entitled to a wide variety of deductions in determining the Federal taxable estate. The contribution of different forms of

wealth, as well as the use of some deductions, varies across estate sizes and occasionally even depends on whether the estate ultimately will face a positive tax liability.

Generally, stocks represent the largest component of taxable estates, with real estate and bonds comprising the next largest shares. For estates in 1989, which reflected economic behavior in the wake of the 1987 stock market crash, the beginnings of the 1990-1991 recession, and relatively high interest rates, bonds and real estate comprised a larger share of the value of an estate than in 1997. The growth in the share of estate values composed of annuities and insurance more than offset the decline in the share composed of mortgages over the 1989-1997 period. The composition of estates suggests that taxpayers left bond holdings relatively constant and exchanged other types of wealth into stocks to take advantage of the stock market growth of the mid- and late 1990s.

Figure 3



The previous figures represent the averages for all estates with liabilities under the Federal estate tax. These averages, however, mask substantial differences between the composition of the largest and smallest estates. (See [Figure 3](#).) Stock holdings comprise the majority of assets for large estates, particularly those valued in excess of \$20 million, while different types of assets comprise roughly equal shares of smaller estates. The data suggest smaller estates pursue portfolio diversification by diversifying the types of wealth held as well as the types of stock held, whereas large estates apparently diversify only based on the types of stock held, assuming the portfolios are diversified.

Differences in composition between smaller and large estates are reflected in different investment trends over the 1989-1997 period, and both groups tended to follow the same general investment trend of increasing stock holdings and reducing cash holdings. Large estates, however, increased the portion made up of real estate from 8.8% to 9.2%, while real

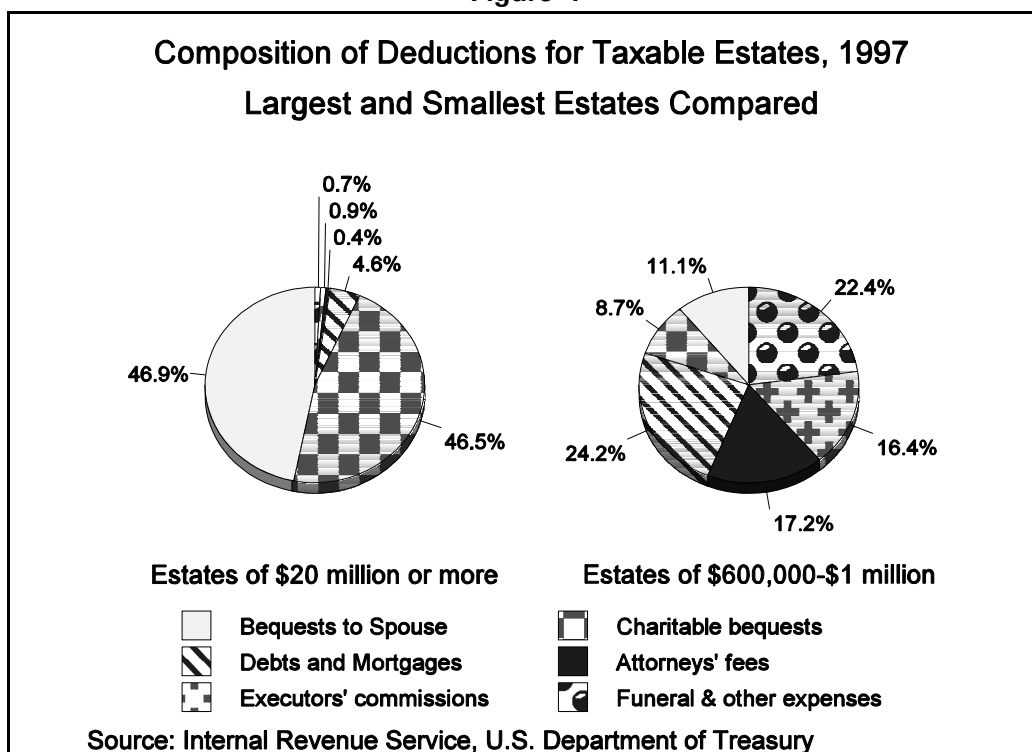
estate's portion of smaller estates fell from 25.0% to 19.0%. Similarly, other forms of wealth (farm, business and other assets, art, etc.) comprised a much smaller share of the large estate in 1997, falling from 19.4% to 9.6% of estate value; while the share rose from 9.6% to 12.5% for smaller estates. Bond holdings for large estates fell over the period, from 15.5% of estate value to 12.2%, while remaining stable for smaller estates (18.1% to 18.2%).

Over the 1989-1997 period, nontaxable estates generally shared the same composition as taxable estates, although annuities comprised a much larger portion of estate value for nontaxable estates, particularly for estates with a gross value of \$10 million or less. Closely held stock comprised approximately twice as large a share of total estate value for nontaxable estates as for taxable estates, regardless of the size of the estate. Because family businesses receive favorable treatment under the Federal estate tax, the larger share of estate value composed of closely held stock in nontaxable estates likely reflects the presence of family businesses in those estates.

Unlike the composition of estate wealth, the composition of deductions remained stable over the 1989-1997 period. On average, bequests to spouses represented slightly less than one-half of total deductions. The share of total deductions composed of charitable bequests rose from 22.5% to 32.6%, offsetting slight declines in the shares comprising debts and mortgages, attorneys' fees, executors' commissions, and other expenses.

The composition of deductions taken against the Federal estate tax, however, varies drastically between large and smaller estates (Figure 4), as well as between taxable and nontaxable estates. In 1997, bequests to spouses and charitable bequests each comprised slightly less than 50% of the value of deductions claimed by taxable estates valued at \$20 million or more. For smaller estates those types of bequests comprised less than 20% of

Figure 4



total deductions, and expenses such as attorneys' fees, executors' commissions, and funeral expenses comprised more than 56% of total deductions.

Because deductions are subject to relatively few limitations (for example, the deduction for bequests to spouses is unlimited), deductions tend to reduce the gross value of large estates by a larger fraction than in the case of smaller estates. In 1997, deductions reduced the gross value of smaller estates by an average 6.9%, compared with 65.2% for estates valued at \$20 million or more. On average, deductions reduced the gross value of taxable estates by 30.2%.

The composition of deductions remained stable across different sizes of nontaxable estates. On average, approximately 80% of the deductions represented bequests to spouses, while charitable bequests comprised roughly 10% of deductions, followed by mortgages and debts, which comprised about 8% of deductions. For nontaxable estates, the proportion of deductions attributable to each of these items remained fairly constant across the 1989-1997 period.

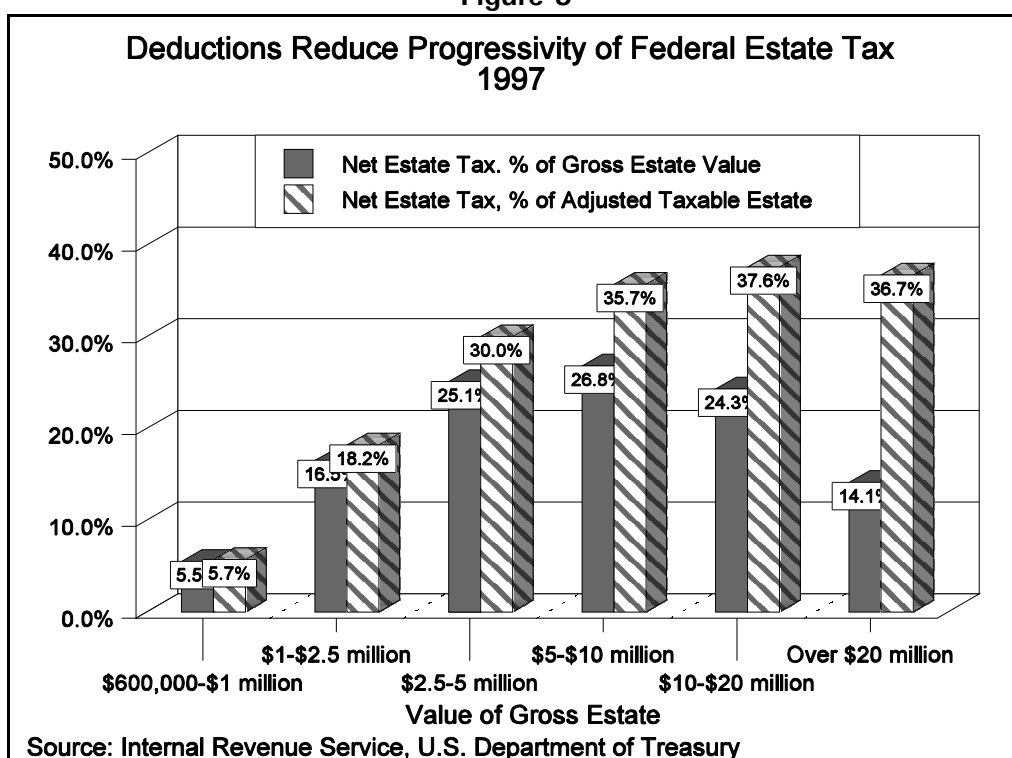
Incidence Based on Estates

The lack of consensus regarding which agent is considered to be the taxpayer makes evaluating the incidence of death taxes difficult. Legally, estate taxes are levied against the estate, indicating the decedent is the taxpayer. Many estate taxes, however, make the personal representative of the estate/decedent liable for payment of any taxes due, suggesting the representative bears some incidence. In contrast, inheritance taxes are levied against bequests, indicating the beneficiary is the taxpayer. On the other hand, some inheritance taxes also make the personal representative liable for payment of any taxes. Regardless of the legal incidence of a death tax, the bequests to heirs are reduced, leading many to feel the true incidence of the tax lies upon beneficiaries. Using bequest reduction to assign economic incidence is more difficult with estate taxes than with inheritance taxes, since the tax liability is based upon the size of the total estate, not individual beneficiaries' bequests. Larger estates potentially face larger estate tax liabilities, and the tax is explicit in the premise that the tax is based upon estates' ability to pay. Depending on how taxes are applied in reducing bequests and the characteristics of the beneficiaries, any given estate tax probably could be argued to be progressive, regressive, or proportional.

Data provided above indicate the Federal estate tax may be successful at enhancing the progressivity of the tax system, if incidence is viewed from the estate level rather than the beneficiary level. Nevertheless, deductions against the Federal estate tax significantly erode the progressivity of the exemptions and tax rates, mainly because among taxable estates large estates receive the majority of the benefit of deductions. Not only do deductions allow large estates to eliminate a greater portion of the gross value of an estate from taxation (as described above), but the deductions are worth more to large estates also. Because deductions are applied against the last dollars comprising the value of the estate, the tax reduction provided by the deductions is worth more to large estates than to smaller estates, although such reductions may lower large estates' liability by a lesser proportion than for smaller estates. For example, \$50,000 of mortgage debt on a primary residence reduces the tax liability of a \$750,000 estate by \$18,500, but will reduce the liability of a \$3.5 million estate by \$27,500.

As a result of deductions, while Federal estate taxes before credits averaged 30.0% of the gross estate value in 1997, this "effective tax rate before credits" did not follow the pattern of a progressive tax. Progressive taxation requires that the average tax rate rise as the size of the estate increases. Initially, estate taxes before credits rose as a share of the gross value of the estate, climbing from 31.8% for estates between \$600,000 and \$1 million to 35.7% for estates between \$2.5 million and \$5.0 million. For estates valued at more than \$5 million, estate taxes before credits declined as a share of the gross estate, falling to an average of 19.4% for estates valued at \$20 million or more. Because taxes are applied to the gross estate net of deductions, the Federal estate tax appears much more progressive when measured against the adjusted taxable estate instead of the gross estate value. (See Figure 5.)

Figure 5



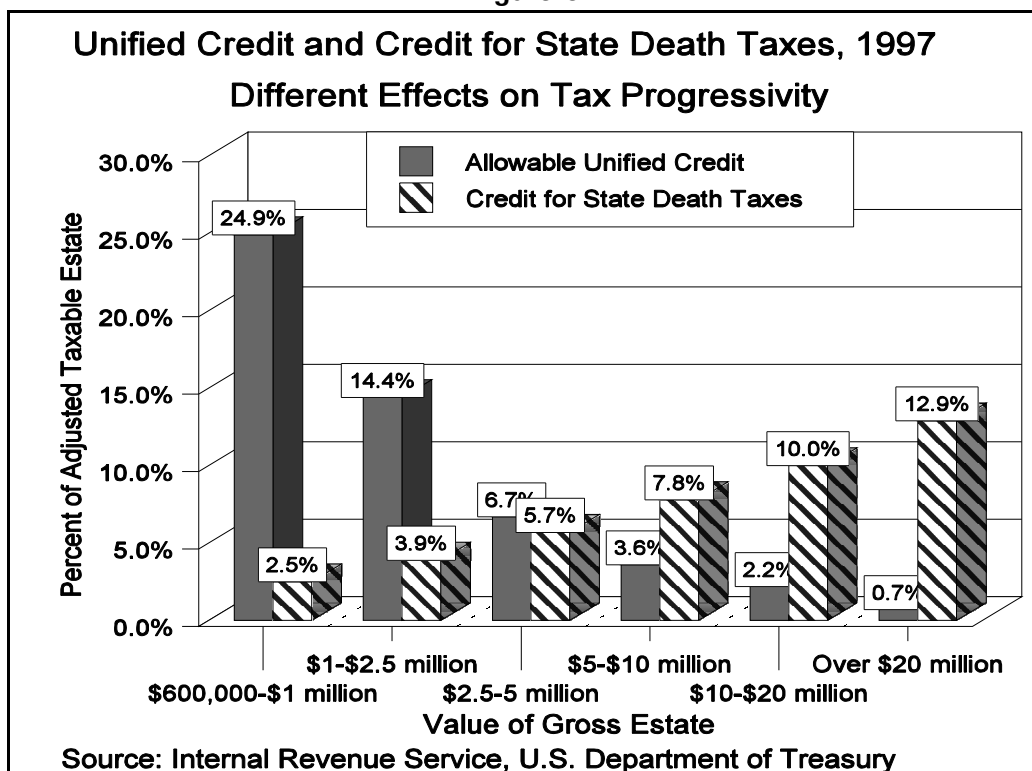
While the deductions significantly decrease the progressivity of the Federal estate tax, the goals of several deductions are not related to progressivity issues. As indicated above, deductions for bequests to a spouse or charitable institutions comprise a significant portion of deductions, particularly for large estates. The deduction for bequests to a spouse serves to address equity considerations that are obviously not related to progressivity, while the deduction for charitable contributions serves to encourage philanthropy.

Deductions under the Federal estate tax not only reduce the vertical equity of the tax by making it less progressive, but raise problems with horizontal equity as well. Horizontal equity implies similarly valued estates will face similar liabilities. Two estates of similar size, however, may face radically different liabilities (including no liability at all) depending on factors such as how recently a home has been purchased (and how high the price of the home) and whether a substantial portion of the estate could be (or was) left to a spouse. For

example, 32,380 returns were filed in 1997 for estates valued between \$1 million and \$2.5 million. Approximately 54.4% of those returns (17,606 estates) exhibited an average Federal estate tax liability of \$234,885 per estate, while the other 45.6% of returns (14,774 estates) reported a zero tax liability.

The unified credit against the Federal estate tax allows the tax to recoup some progressive features, although this recovery is somewhat offset by the ability of large estates to receive a greater benefit from the credit for state death taxes. (See [Figure 6](#).) Estate taxes after credits averaged 17.0% of the gross value for all estates in 1997. This “effective tax rate after credits” rose from 5.5% for estates valued between \$600,000 and \$1 million to 26.8% for estates valued between \$5 million and \$10 million, but declined rapidly to 14.1% for estates valued at \$20 million or more. As indicated previously, bequests to spouses comprised the overwhelming majority of deductions claimed by nontaxable estates.

Figure 6



As described earlier, the unified credit effectively exempts the first dollars in the valuation of the estate rather than the last dollars, allowing the unified credit to enhance substantially the progressivity of the Federal estate tax. In 1997, the unified credit averaged 23.9% of the gross value of the estate for estates valued between \$600,000 and \$1 million, and fell to only 0.3% of the gross estate for estates valued at \$20 million or more. In contrast, because the credit for state death taxes effectively serves as an estate tax for many states, the credit must balance creating a progressive tax structure for states with maintaining progressivity in the Federal estate tax. Larger state death tax credits enhance the progressivity at the state level but erode the progressivity at the Federal level. The balance under the current system resulted in state death tax credits in 1997 averaging 2.4% of the gross value of the estate for estates valued between \$600,000 and \$1 million, before rising to 6.5% of the gross

estate for estates valued between \$10 million and \$20 million and then falling to 4.9% of the gross estate for estates valued at \$20 million or more. Consequently, except for the very largest estates, the credit for state death taxes provides a mildly progressive tax for states.

Distribution and Composition of Beneficiaries

The Federal estate tax requires estates to list all beneficiaries receiving bequests of \$5,000 or more, including the relationship to the decedent and the size of the bequest. According to a December 1998 study from the Office of Tax Analysis in the U.S. Department of Treasury, the most recent data available regarding beneficiaries come from the 1982 Collation Study. The Internal Revenue Service's Statistics of Income Division assembled the 1982 Collation data, which provide for several classifications of beneficiaries and the bequests received after estate taxes, charitable bequests, and other expenses. Table 15 displays the number of beneficiaries, the total amount bequeathed, and the average bequest by relationship to the decedent and estate size.

Based on the Collation data, spouses represent 12.7% of beneficiaries, while children comprise 28.3%. These shares are consistent with the average demographic family with one spouse and slightly more than two children. Bequests to older generations, such as aunts, uncles, and parents, occur rarely and represent approximately 0.4% of those receiving bequests. Significant differences in the distribution of beneficiaries, however, exist between beneficiaries of large estates and beneficiaries of smaller estates. Beneficiaries of large estates are more likely to include unrelated individuals, in-laws, cousins and trusts than are beneficiaries of smaller estates, of which close family members such as spouses, children, siblings, and nieces/nephews comprise the majority of beneficiaries.

Based on the Collation data and consistent with the information regarding deductions, spouses represent nearly half (48.9%) of the value of all bequests. Children represent nearly one-quarter (24.0%) of the value of all bequests, followed by trusts, which comprise 11.5%. Like deductions, the amounts distributed to beneficiaries vary across estate sizes. On average, spouses receive 39.4% of bequests from smaller estates, compared with 82.0% for the largest estates. In contrast, children receive 32.8% of the value of smaller estates, compared with only 6.1% for the largest estates. Trusts receive a larger portion (14.0%) of bequests for estates in the middle sizes than they receive from either the largest or smallest estates, which bequeath approximately 7.7% of the estate to trusts. While distant relatives and unrelated family members comprise a greater share of the beneficiaries of large estates, the portions of the estates bequeathed to such individuals remain stable across estate sizes. Average bequest amounts follow a predictable pattern across beneficiaries, with more closely related individuals receiving more than distant relatives or unrelated individuals receive.

Incidence Based on Beneficiaries

Neither the Federal estate tax nor any of the state death taxes requires beneficiaries to report their incomes. As indicated earlier, the Federal estate tax requires estates to list only each beneficiary receiving a bequest of \$5,000 or more, the beneficiary's relationship to the decedent, and the size of the bequest. Virtually every state with only a pick-up tax requires little more information on the state tax return than the value of the gross estate and the amount of the credit for state death taxes claimed on the Federal estate tax return. While states with inheritance taxes require returns to list beneficiaries and their bequests, the

incomes of beneficiaries are not required to be reported. Furthermore, most states with an inheritance tax levy a tax that is the greater of a pick-up tax or the state's own inheritance tax, further complicating an incidence calculation even if the incomes of beneficiaries were reported. As a result, limited information exists regarding the incidence of death taxes upon beneficiaries. The Internal Revenue Service's 1982 Collation data also linked beneficiaries' 1982 income tax returns (1981 income) to estate tax returns filed in 1982, so that the pre-inheritance income of beneficiaries could be determined. The Collation data, however, measure only beneficiaries' income, not their wealth.

Table 16 presents information from the Collation data on those decedents' children who received a bequest. Generally, decedents with large estates appear to have children with higher incomes. For example, only 0.8% of the children receiving bequests from the smaller estates reported an income of \$200,000 or more, compared with 34.7% for the largest estates. Similarly, over half (52.1%) of the children receiving bequests from smaller estates reported an income of \$30,000 or less, compared with 19.0% for the largest estates. Those children with no adjusted gross income, listed as "No AGI" in Table 16, represent both individuals with zero AGI, and those with negative AGI resulting from capital losses, business losses, and other subtractions available when adjusted gross income is computed under the individual income tax.

Table 17 presents average figures for information similar to that in Table 16. Again, wealthy children tend to be associated with larger estates, although the disparities are more pronounced than in Table 16. Among children receiving an inheritance and reporting an income of \$200,000 or more, those associated with smaller estates exhibited an average income of \$217,729, compared with \$651,429 for children associated with the largest estates.

Average inheritances, across all income levels and estate sizes, tend to total approximately three times the income of the beneficiary. Average bequest amounts, however, followed different patterns depending upon the size of the estate. Smaller estates appeared to leave larger inheritances, both as a percentage of the child's income and in absolute size, to children with lower incomes. Large estates tended to make large bequests to children with lower incomes only in terms of the inheritance as a percentage of the beneficiary's income. In absolute terms, the largest estates bequeathed the largest inheritances to children with incomes of \$50,000 or more.

Table 15
DISTRIBUTION OF BEQUESTS: 1981

Number of Beneficiaries												
Gross Estate	Spouse	Son	Daughter	Grandchild	Sibling	Niece/ Nephew	Aunt/ Uncle	Parent	Other	Trust	NA	Total
\$300,000-\$500,000	15,941	18,234	17,798	12,666	7,862	18,671	0	546	16,815	4,695	2,839	116,067
\$500,000-\$1 million	9,143	9,856	11,162	13,893	4,275	5,106	0	237	11,755	7,006	1,187	73,620
\$1 million-\$2.5 million	3,758	3,693	3,778	4,139	1,387	4,342	32	87	8,582	3,155	717	33,670
\$2.5 million-\$10 million	1,088	1,083	1,148	1,532	455	1,303	9	11	3,546	1,405	176	11,756
\$10 million or greater	130	144	135	248	33	154	1	3	801	239	60	1,948
Total	30,060	33,010	34,021	32,478	14,012	29,576	42	884	41,499	16,500	4,979	237,061
Bequest Totals (in thousands)												
Gross Estate	Spouse	Son	Daughter	Grandchild	Sibling	Niece/ Nephew	Aunt/ Uncle	Parent	Other	Trust	NA	Total
\$300,000-\$500,000	\$3,926,071	\$1,529,153	\$1,735,046	\$323,263	\$589,332	\$592,828	\$0	\$31,668	\$360,467	\$777,818	\$92,173	\$9,957,819
\$500,000-\$1 million	\$4,120,104	\$995,438	\$1,461,548	\$354,223	\$468,199	\$353,115	\$0	\$77,069	\$418,150	\$1,293,393	\$21,770	\$9,563,009
\$1 million-\$2.5 million	\$3,405,539	\$742,180	\$763,310	\$200,969	\$157,741	\$292,655	\$2,392	\$12,760	\$304,867	\$955,033	\$29,815	\$6,867,261
\$2.5 million-\$10 million	\$2,745,338	\$394,187	\$384,516	\$155,674	\$63,560	\$141,172	\$176	\$4,192	\$153,543	\$685,974	\$8,782	\$4,737,114
\$10 million or greater	\$2,511,222	\$99,240	\$86,438	\$50,751	\$5,338	\$9,774	\$57	\$1,892	\$61,501	\$235,048	\$1,838	\$3,063,099
Total	\$16,708,274	\$3,760,198	\$4,430,858	\$1,084,880	\$1,284,170	\$1,389,544	\$2,625	\$127,581	\$1,298,528	\$3,947,266	\$154,378	\$34,188,302
Average Bequest												
Gross Estate	Spouse	Son	Daughter	Grandchild	Sibling	Niece/ Nephew	Aunt/ Uncle	Parent	Other	Trust	NA	Total
\$300,000-\$500,000	\$246,288	\$83,863	\$97,485	\$25,522	\$74,960	\$31,751	\$0	\$58,000	\$21,437	\$165,669	\$32,467	\$85,794
\$500,000-\$1 million	\$450,629	\$100,998	\$130,940	\$25,497	\$109,520	\$69,157	\$0	\$325,186	\$35,572	\$184,612	\$18,340	\$129,897
\$1 million-\$2.5 million	\$906,210	\$200,969	\$202,041	\$48,555	\$113,728	\$67,401	\$74,750	\$146,667	\$35,524	\$302,705	\$41,583	\$203,958
\$2.5 million-\$10 million	\$2,523,289	\$363,977	\$334,944	\$101,615	\$139,692	\$108,344	\$19,556	\$381,091	\$43,300	\$488,238	\$49,898	\$402,953
\$10 million or greater	\$19,317,092	\$689,167	\$640,281	\$204,641	\$161,758	\$63,468	\$57,000	\$630,667	\$76,780	\$983,464	\$30,633	\$1,572,433
Total	\$555,831	\$113,911	\$130,239	\$33,404	\$91,648	\$46,982	\$62,500	\$144,322	\$31,291	\$239,228	\$31,006	\$144,217

Source: Office of Tax Analysis, U.S. Department of Treasury, based on the 1982 Collation Study

Table 16

NUMBER OF CHILDREN, CHILDREN'S TOTAL INCOME, AND TOTAL INHERITANCE RECEIVED, 1981										
Number of Children, by Parent's Gross Estate and Child's Adjusted Gross Income										
Gross Estate	No AGI	\$1 to \$10,000	\$10,000 to \$20,000	\$20,000 to \$30,000	\$30,000 to \$50,000	\$50,000 to \$75,000	\$75,000 to \$100,000	\$100,000 to \$200,000	\$200,000 or more	Total
\$300,000-\$500,000	1,100	3,409	4,729	6,708	5,938	3,739	1,100	1,540	220	28,483
\$500,000-\$1 million	251	1,506	2,134	3,138	5,147	1,632	1,130	1,757	251	16,946
\$1 million-\$2.5 million	191	614	731	816	1,263	933	605	1,025	431	6,609
\$2.5 million-\$10 million	61	127	165	181	302	231	196	362	333	1,958
\$10 million or greater	8	13	14	11	23	19	26	44	84	242
Total	1,611	5,669	7,773	10,854	12,673	6,554	3,057	4,728	1,319	54,238
Total Income of Children, by Parent's Gross Estate and Child's Adjusted Gross Income (in thousands)										
Gross Estate	No AGI	\$1 to \$10,000	\$10,000 to \$20,000	\$20,000 to \$30,000	\$30,000 to \$50,000	\$50,000 to \$75,000	\$75,000 to \$100,000	\$100,000 to \$200,000	\$200,000 or more	Total
\$300,000-\$500,000	(\$50,187)	\$19,260	\$72,992	\$164,152	\$226,528	\$227,916	\$93,492	\$193,720	\$47,888	\$995,761
\$500,000-\$1 million	(\$7,203)	\$7,126	\$30,310	\$78,292	\$193,633	\$99,298	\$99,054	\$230,026	\$66,270	\$796,806
\$1 million-\$2.5 million	(\$13,345)	\$3,324	\$10,979	\$20,620	\$49,415	\$57,099	\$52,413	\$140,279	\$152,150	\$472,934
\$2.5 million-\$10 million	(\$5,372)	\$692	\$2,450	\$4,508	\$11,946	\$14,211	\$17,181	\$52,196	\$143,926	\$241,738
\$10 million or greater	(\$491)	\$76	\$198	\$279	\$867	\$1,113	\$2,289	\$6,259	\$54,800	\$65,390
Total	(\$76,598)	\$30,478	\$116,929	\$267,851	\$482,389	\$399,637	\$264,429	\$622,480	\$465,034	\$2,572,629
Inheritance by Parent's Gross Estate and Child's Adjusted Gross Income (in thousands)										
Gross Estate	No AGI	\$1 to \$1,000	\$10,000 to \$20,000	\$20,000 to \$30,000	\$30,000 to \$50,000	\$50,000 to \$75,000	\$75,000 to \$100,000	\$100,000 to \$200,000	\$200,000 or more	Total
\$300,000-\$500,000	\$122,837	\$367,531	\$421,454	\$739,337	\$1,189,707	\$507,011	\$103,254	\$259,654	\$13,012	\$3,723,797
\$500,000-\$1 million	\$66,547	\$144,845	\$188,604	\$450,243	\$659,454	\$378,175	\$136,201	\$263,232	\$47,692	\$2,334,993
\$1 million-\$2.5 million	\$38,500	\$99,436	\$137,598	\$142,637	\$260,291	\$228,667	\$141,807	\$253,678	\$108,281	\$1,410,895
\$2.5 million-\$10 million	\$15,331	\$32,849	\$49,469	\$49,512	\$100,288	\$84,843	\$76,288	\$137,504	\$125,844	\$671,928
\$10 million or greater	\$2,407	\$4,910	\$8,237	\$4,703	\$11,242	\$12,378	\$17,723	\$35,353	\$54,853	\$151,806
Total	\$245,622	\$649,571	\$805,362	\$1,386,432	\$2,220,982	\$1,211,074	\$475,273	\$949,421	\$349,682	\$8,293,419

Source: Office of Tax Analysis, U.S. Department of Treasury, based on the 1982 Collation Study

Table 17

AVERAGE INCOME AND BEQUESTS RECEIVED BY DECEDENT'S CHILDREN: 1981									
Average Income of Child in 1981									
Gross Estate	\$1 to \$10,000	\$20,000 to \$20,000	\$20,000 to \$30,000	\$30,000 to \$50,000	\$50,000 to \$75,000	\$75,000 to \$100,000	\$100,000 to \$200,000	\$200,000 or More	Total
\$300,000-\$500,000	\$5,650	\$15,436	\$24,470	\$38,146	\$60,956	\$85,015	\$125,825	\$217,729	\$34,960
\$500,000-\$1 million	\$4,731	\$14,203	\$24,948	\$37,623	\$60,849	\$87,677	\$130,890	\$263,966	\$47,019
\$1 million-\$2.5 million	\$5,409	\$15,029	\$25,276	\$39,115	\$61,199	\$86,629	\$136,811	\$353,038	\$71,555
\$2.5 million-\$10 million	\$5,438	\$14,856	\$24,847	\$39,608	\$61,539	\$87,848	\$144,305	\$431,660	\$123,452
\$10 million or greater	\$6,042	\$14,347	\$24,657	\$38,374	\$59,088	\$86,827	\$142,431	\$651,429	\$271,254
Total	\$5,376	\$15,045	\$24,675	\$38,065	\$60,979	\$86,516	\$131,658	\$352,427	\$47,433
Average Inheritance Received									
Gross Estate	\$1 to \$10,000	\$10,000 to \$20,000	\$20,000 to \$30,000	\$30,000 to \$50,000	\$50,000 to \$75,000	\$75,000 to \$100,000	\$100,000 to \$200,000	\$200,000 or more	Total
\$300,000-\$500,000	\$107,809	\$89,126	\$110,213	\$200,340	\$135,600	\$93,892	\$168,651	\$59,161	\$130,740
\$500,000-\$1 million	\$96,157	\$88,381	\$143,471	\$128,132	\$231,743	\$120,558	\$149,785	\$189,965	\$137,787
\$1 million-\$2.5 million	\$161,817	\$188,354	\$174,848	\$206,037	\$245,089	\$234,384	\$247,406	\$251,247	\$213,468
\$2.5 million-\$10 million	\$258,155	\$299,913	\$272,883	\$332,504	\$367,407	\$390,066	\$380,159	\$377,426	\$343,142
\$10 million or greater	\$391,045	\$596,416	\$416,221	\$497,441	\$657,237	\$672,188	\$804,497	\$652,065	\$629,733
Total	\$114,568	\$103,623	\$127,723	\$175,258	\$184,794	\$155,499	\$200,809	\$265,007	\$152,909
Average Inheritance Received as a Percent of Average Income of Child									
Gross Estate	\$1 to \$10,000	\$10,000 to \$20,000	\$20,000 to \$30,000	\$30,000 to \$50,000	\$50,000 to \$75,000	\$75,000 to \$100,000	\$100,000 to \$200,000	\$200,000 or more	Total
\$300,000-\$500,000	1908.1%	577.4%	450.4%	525.2%	222.5%	110.4%	134.0%	27.2%	374.0%
\$500,000-\$1 million	2032.5%	622.3%	575.1%	340.6%	380.8%	137.5%	114.4%	72.0%	293.0%
\$1 million-\$2.5 million	2991.6%	1253.3%	691.8%	526.7%	400.5%	270.6%	180.8%	71.2%	298.3%
\$2.5 million-\$10 million	4747.2%	2018.8%	1098.3%	839.5%	597.0%	444.0%	263.4%	87.4%	278.0%
\$10 million or greater	6472.1%	4157.1%	1688.0%	1296.3%	1112.3%	774.2%	564.8%	100.1%	232.2%
Total	2131.1%	688.8%	517.6%	460.4%	303.0%	179.7%	152.5%	75.2%	322.4%

Source: Office of Tax Analysis, U.S. Department of Treasury, based on the 1982 Collation Study

IMPACT OF ELIMINATING THE FEDERAL ESTATE TAX

In July, 2000, the United States Senate passed H.R. 8, the "Death Tax Elimination Act of 2000", to phase out the Federal estate and gift taxes over a 10-year period. The bill proposed to replace the unified credit with a "unified exemption", which roughly corresponded to the estate values associated with the current unified credit enacted under the Taxpayer Relief Act of 1997. The bill also proposed to repeal, beginning 2001, all marginal tax rates above 53%, as well as the additional 5% tax applied to the largest estates. In 2002, all marginal rates above 50% would have been repealed. For the next six years, all rates would have been reduced by set increments, ranging from one percentage point per year in 2003 through 2006, to two percentage points per year in 2008 and 2009. Between 2003 through 2009, the rates used to determine the credit for state death taxes would have been reduced in proportion to the reduction in estate and gift tax rates.

The elimination of the Federal estate and gift taxes not only would have an impact on Federal revenues, but also would affect the death tax revenues of nearly every state (particularly those states, such as Michigan, with pick-up taxes), as well as Federal and state income taxes and charitable giving. Although President Clinton vetoed H.R. 8, President Bush and many members of Congress still favor a repeal of the federal estate tax and a similar proposal may be introduced in the 107th Congress. Thus, the following is a discussion of the impact H.R. 8 would have if it were enacted.

Impact of H.R. 8 on Federal Estate Tax Revenues

Table 18 presents estimates of the impact of the Death Tax Elimination Act of 2000 for federal fiscal years 2000-01 through 2010-11.

Fiscal Year	Estimated Federal Estate Tax Revenue Under Current Law	H.R. 8 Revenue Effect	Percent Change in Federal Estate Tax Revenue	Percent of Federal Taxes
2001	\$33,300	(\$8)	-0.0%	-0.0%
2002	\$35,900	(\$5,068)	-14.1%	-0.4%
2003	\$37,300	(\$6,720)	-18.0%	-0.5%
2004	\$39,700	(\$7,689)	-19.4%	-0.5%
2005	\$38,100	(\$8,841)	-23.2%	-0.6%
2006	\$38,700	(\$10,115)	-26.1%	-0.6%
2007	\$40,500	(\$11,302)	-27.9%	-0.7%
2008	\$43,300	(\$12,834)	-29.6%	-0.7%
2009	\$45,900	(\$19,174)	-41.8%	-1.0%
2010	\$48,600	(\$22,993)	-47.3%	-1.2%
2011*	\$50,700	(\$50,700)	-100.0%	-2.5%
*FY 2010-11 estimated by the Michigan Senate Fiscal Agency, based on FY 2000-01 to FY 2009-10 average growth				

Source: Joint Committee on Taxation and Office of Management and Budget

The aggregate revenue impact described in Table 18 does not illustrate the distributional changes associated with H.R. 8, particularly in the early years of the bill. By replacing the unified credit with a unified exemption, the bill would alter the income that escapes taxation and provide a tax reduction that would vary across estate sizes. Table 19 illustrates the aggregate impact of H.R. 8 across estate sizes, for each of several years during the phase-out of the Federal estate tax. In 2002, the changes affect only the highest marginal rates and convert the unified credit to an exemption, but in 2006, rates in all brackets (including the credit for state death taxes) would have experienced four years of declines. By 2009, the year before the tax would be completely eliminated, all rate reductions would be fully implemented. The full impact of the bill would not be felt until FY 2010-11, because of the lags between changes in the tax law, the date of death, and the delay created by the due date for returns.

The Taxpayer Relief Act of 1997 enacted reductions in Federal estate tax liability by increasing the amount of the unified credit from \$192,300 (corresponding to the liability of a \$600,000 estate) in 1997 to \$345,800 (corresponding to the liability of a \$1,000,000 estate) in 2006. The 1997 changes also increased the exemptions for closely held businesses and family farms, so that estates that include such businesses or farms may claim a credit corresponding to the liability of a \$1.3 million estate. As a result, estates valued at less than \$1 million would see little tax relief from H.R. 8 over that provided under current law, although a few of these smaller estates would see the elimination of their Federal estate tax liability accelerated.

The tax reductions in the early years of the phase-out that would be created by H.R. 8 primarily would affect smaller estates, although, as indicated above, these reductions essentially represent an acceleration of tax reductions already provided for under current law. In the early years of the phase-out, smaller estates would receive the majority of the tax cut and see the largest percentage reductions in their liabilities. In 2006, the largest 329 estates would receive approximately 20.9% of the tax cut under H.R. 8, and by 2009, would receive 22.5% of the total tax reduction created by the bill. Compared with current law, once the Federal estate tax was completely eliminated, estates valued between \$600,000 and \$1,000,000 would see no difference in their liabilities, while estates valued between \$1 million and \$2.5 million would realize a reduction in their taxes of \$243,885 per estate and the 329 estates valued at \$20 million or more would experience an average tax reduction of \$10.5 million per estate.

The unified credit functions to exempt the first wealth added to the estate, whereas an exemption would eliminate the last wealth added to the estate. For example, in the year 2000, a decedent's estate will be allowed a unified credit of \$220,550 under current law, which corresponds to the tax upon a \$675,000 estate. All estates are allowed the \$220,550 credit, although any excess credit is not refundable. As a result, the first \$675,000 of wealth from an estate is exempt from tax, and all estates receive the same effective benefit from the credit: \$220,550. Under H.R. 8, the unified credit would be replaced with a unified exemption amount of \$675,000. The exemption would eliminate the last wealth added to an estate, and thus provide a value to the taxpayer equal to the highest marginal rates that would be applied to that wealth. Consequently, under the exemption, an estate of \$675,000 would receive a tax benefit of \$220,550, while an estate valued at \$4 million would receive a tax benefit of \$371,250. House Resolution 8 would mitigate this difference somewhat by reducing the highest marginal rates, although in 2002 the \$4 million estate would find a \$675,000 exemption to be worth \$337,500.

Table 19

IMPACT OF H.R. 8, THE "DEATH TAX ELIMINATION ACT OF 2000"					
(in millions)					
Estate Size	Net Federal Estate Tax Revenue 1997	Net Revenue in 2002			
		Under Current Law	Under H.R. 8	Percent Change	Share of Total
\$600,000 under \$1,000,000	\$834.9	\$141.8	\$0.0	-100.0%	7.1%
\$1,000,000 under \$2,500,000	\$4,293.8	\$3,626.3	\$2,743.5	-24.3%	44.2%
\$2,500,000 under \$5,000,000	\$3,409.4	\$3,260.6	\$2,751.8	-15.6%	25.5%
\$5,000,000 under \$10,000,000	\$2,668.5	\$2,616.4	\$2,400.6	-8.2%	10.8%
\$10,000,000 under \$20,000,000	\$1,966.1	\$1,944.1	\$1,852.9	-4.7%	4.6%
\$20,000,000 or more	\$3,464.7	\$3,453.4	\$3,298.6	-4.5%	7.8%
Total	\$16,637.4	\$15,042.5	\$13,047.4	-13.3%	100.0%
Net Revenue in 2006					
Estate Size	Net Federal Estate Tax Revenue 1997	Under Current Law	Under H.R. 8	Percent Change	Share of Total
\$600,000 under \$1,000,000		\$0.0	\$0.0	NA	-0.0%
\$1,000,000 under \$2,500,000		\$1,561.3	\$738.6	-52.7%	25.1%
\$2,500,000 under \$5,000,000		\$2,800.3	\$1,961.9	-29.9%	25.6%
\$5,000,000 under \$10,000,000		\$2,455.1	\$1,898.5	-22.7%	17.0%
\$10,000,000 under \$20,000,000		\$1,875.9	\$1,502.5	-19.9%	11.4%
\$20,000,000 or more		\$3,418.5	\$2,734.0	-20.0%	20.9%
Total		\$12,111.1	\$8,835.4	-27.0%	100.0%
Net Revenue in 2009					
Estate Size	Net Federal Estate Tax Revenue 1997	Under Current Law	Under H.R. 8	Percent Change	Share of Total
\$600,000 under \$1,000,000		\$0.0	\$0.0	NA	-0.0%
\$1,000,000 under \$2,500,000		\$1,561.3	\$581.3	-62.8%	21.7%
\$2,500,000 under \$5,000,000		\$2,800.3	\$1,650.4	-41.1%	25.4%
\$5,000,000 under \$10,000,000		\$2,455.1	\$1,642.4	-33.1%	18.0%
\$10,000,000 under \$20,000,000		\$1,875.9	\$1,310.9	-30.1%	12.5%
\$20,000,000 or more		\$3,418.5	\$2,401.3	-29.8%	22.5%
Total		\$12,111.1	\$7,586.3	-37.4%	100.0%
Notes: Reductions are relative to current law, which will reduce liabilities through 2006 due to increases in unified credit.					
Amounts are based upon 1997 Federal estate tax returns. Figures do not account for growth in estate values or number of returns, but reflect the effect of the tax law for given years upon 1997 estates.					

Source: U.S. Internal Revenue Service

House Resolution 8 would preserve a form of the changes in the Taxpayer Relief Act of 1997, which increases the unified credit through 2006. The higher unified credit amounts associated with larger estates sizes also would be converted to exemptions, so that the exemption would increase from \$675,000 in 2001 to \$1,000,000 by 2006. Thus, while the highest marginal rate would fall under H.R. 8, the exemption amount would continue to increase. In 2006, an estate valued at \$1 million would find the exemption to be worth

\$345,800, while a \$4 million estate would find the exemption to be worth \$460,000. As a result, as indicated in Table 20, smaller estates would receive tax cuts of a smaller magnitude than that received by larger estates. In 2002, the average estate valued between \$600,000 and \$1,000,000 is estimated to exhibit an average liability of \$7,674 under current law. Under H.R. 8, such estates, which represent approximately 44.3% of all estates currently paying tax under the Federal estate tax, would likely exhibit zero liability. Liabilities for estates valued at \$20 million or more are estimated to average \$11.5 million (based on the average estate value of \$74.9 million) under current law, and \$11.0 million under H.R. 8, reflecting an average reduction of \$514,400 per estate. As indicated earlier, these differences would increase as H.R. 8 phased out the Federal estate tax. By 2009, the average estate valued between \$600,000 and \$1,000,000 would see no difference between current law and H.R. 8, while the 329 estates valued in excess of \$20 million would experience an average tax reduction of \$10.5 million per estate.

Average estimated Federal estate tax liabilities in Table 20 differ from the actual average net estate tax liabilities shown in Table 13 because of the methodology used to produce the distributional estimates in Table 20. The values in Table 20 are based upon the average estate size, with deductions, exemptions and credits adjusted to reflect either the average values reported or the values such an average estate would be entitled to in the future under existing or proposed tax laws. As a result, estates that deviate substantially from the average will skew the results. For all estate classifications other than those estates valued at \$20 million or more, the skew is minimal. The skew apparent for the largest estates most likely represents the influence of a few estates with very atypical patterns of gross value, deductions, and credits.

Impact of H.R. 8 on Other Federal Revenues

Table 18 does not include secondary revenue impacts that likely would result from the elimination of the Federal estate tax. House Resolution 8 would probably affect income taxes, particularly at the individual level through effects upon charitable giving and capital gains. Under current law, stocks bequeathed by an estate are subject to a step-up in basis, meaning that capital gains realized by the beneficiary are evaluated as if the beneficiary had purchased such assets at the time the inheritance was received. Although not part of current law, capital gains can be evaluated on a carry-over basis as an alternative to the step-up in basis, meaning that any capital gain is based upon the acquisition price paid by the decedent. House Resolution 8 would apply a carry-over basis to most assets, although \$1.3 million of assets would be allowed to receive a step-up in basis. An additional \$3 million bequeathed to a spouse also would receive a step-up in basis.

The step-up in basis reduces the capital gain a beneficiary will be taxed upon when an asset is sold. Under the capital gains tax, the step-up in basis creates an incentive for individuals to forgo the realization of any capital gains and instead bequeath the assets to an heir. Under the capital gains tax, gains currently face a maximum tax rate of 20%. An individual who forgoes realization of a capital gain avoids the 20% tax on those gains. The unrealized gains on those assets, however, currently become part of an estate and may face tax rates as high as 55%, depending on the value of the estate. As a result, if an individual realizes a gain and then dies, the realized gain will be subject to both capital gains and estate taxes, facing a combined maximum effective rate of 64% (i.e., the 20% capital gains tax is not included in the value of the estate, so the combined tax is 20% of the total plus a 55% tax on the

remaining 80%). In comparison, the maximum rate would be 55% if the gain is not realized and only subject to step-up at death. Thus, while the capital gains tax creates an incentive for individuals who own assets to hold them until death and bequeath them to heirs, the Federal estate tax removes much of this incentive.

As a result, the interaction of capital gains taxes, death taxes, and the method for evaluating an asset's basis, taxpayers' capital gains realizations are sensitive to death taxes. Recent studies suggest that eliminating the Federal estate tax without changing the method for evaluating an asset's basis could reduce capital gains realizations by as much as 25%. The change in basis under H.R. 8 would affect capital gains realizations, and thus affect income tax revenues. The portion of estates subject to a step-up in basis would decrease realizations, and would result in a loss of revenue from both the repealed estate taxes and the capital gains that would have been realized on the amount by which the asset is stepped-up. House Resolution 8 would allow executors to elect which assets would be subject to a step up in basis. The portion of estates not subject to step-up also would reduce revenues, from both the repealed estate taxes and the greater length of time before any potential capital gain would be realized. The latter effect, however, could serve to increase capital gains revenues if assets' values were to grow rapidly enough.

In 1998, \$424.3 billion in capital gains were reported. Because 70.0% of all capital gains were realized by individuals with adjusted gross incomes of \$200,000 or more, who face marginal tax rates of 39.6%, the revenue loss from reduced realizations could be significant and perhaps greater than the revenue impact of eliminating the Federal estate tax. For those capital gains realized by individuals with incomes of \$200,000 or more, a 25% reduction in capital gains realizations (subject to the 20% capital gains rate) would reduce Federal individual income tax revenues by approximately \$14.9 billion.

Substantial research indicates the estate tax also encourages charitable giving, primarily by lowering the price of transfers to charities relative to beneficiaries other than a spouse and by providing a means of tax avoidance. In 1997, charitable bequests under the estate tax totaled \$14.3 billion; 52.4% (\$7.5 billion) of those bequests were made by taxable estates valued at \$20 million or more. In comparison, \$95.8 billion in charitable gifts were made under the individual income tax in 1997, and \$7.7 billion in contributions or gifts were made under the corporate income tax in 1996, the latest years for which figures are available. As a result, charitable contributions under the estate tax averaged at least 12.1% of all charitable giving. The corporate income tax deductions also may include contributions and gifts to agents not eligible for the charitable contribution under the estate tax.

Based upon current evidence, charitable giving likely would decline under H.R. 8. Research indicates that giving to religious organizations and educational/medical research institutions is the most responsive to the tax price of giving, implying these institutions would experience the greatest reductions in charitable giving if the Federal estate tax were repealed. Some individuals undoubtedly would continue to provide bequests to charities (although there no longer would be a tax incentive to do so), and/or might provide greater contributions while alive, under the income tax. In the latter case, larger charitable contributions would reduce income tax revenues.

Table 20

**IMPACT OF H.R. 8, THE "DEATH TAX ELIMINATION ACT OF 2000",
ON AVERAGE ESTATE TAX LIABILITY**

1997			
Estate Size	Number of Returns	Average Estate Value	Estimated Average Net Estate Tax
\$600,000 under \$1,000,000	19,006	\$805,834	\$45,174
\$1,000,000 under \$2,500,000	17,606	\$1,480,525	\$241,208
\$2,500,000 under \$5,000,000	3,954	\$3,431,328	\$859,289
\$5,000,000 under \$10,000,000	1,414	\$7,039,799	\$1,919,004
\$10,000,000 under \$20,000,000	592	\$13,678,113	\$3,346,060
\$20,000,000 or more	329	\$74,922,410	\$11,517,820
Total	42,901	\$2,276,182	\$395,949
2002			
Estate Size	Current Law	H.R. 8	Change
\$600,000 under \$1,000,000	\$7,674	\$0	(\$7,674)
\$1,000,000 under \$2,500,000	\$203,708	\$154,115	(\$49,593)
\$2,500,000 under \$5,000,000	\$821,789	\$693,571	(\$128,218)
\$5,000,000 under \$10,000,000	\$1,881,504	\$1,726,304	(\$155,200)
\$10,000,000 under \$20,000,000	\$3,308,560	\$3,153,360	(\$155,200)
\$20,000,000 or more	\$11,480,320	\$10,965,920	(\$514,400)
Total	\$358,449	\$311,678	(\$46,771)
2006			
Estate Size	Current Law	H.R. 8	Change
\$600,000 under \$1,000,000	\$0	\$0	\$0
\$1,000,000 under \$2,500,000	\$87,708	\$41,492	(\$46,216)
\$2,500,000 under \$5,000,000	\$705,789	\$494,463	(\$211,326)
\$5,000,000 under \$10,000,000	\$1,765,504	\$1,365,247	(\$400,257)
\$10,000,000 under \$20,000,000	\$3,192,560	\$2,557,011	(\$635,549)
\$20,000,000 or more	\$11,364,320	\$9,088,849	(\$2,275,471)
Total	\$290,440	\$212,584	(\$77,856)
2009			
Estate Size	Current Law	H.R. 8	Change
\$600,000 under \$1,000,000	\$0	\$0	\$0
\$1,000,000 under \$2,500,000	\$87,708	\$32,654	(\$55,054)
\$2,500,000 under \$5,000,000	\$705,789	\$415,963	(\$289,826)
\$5,000,000 under \$10,000,000	\$1,765,504	\$1,181,110	(\$584,394)
\$10,000,000 under \$20,000,000	\$3,192,560	\$2,231,005	(\$961,555)
\$20,000,000 or more	\$11,364,320	\$7,982,672	(\$3,381,648)
Total	\$290,440	\$182,671	(\$107,769)

Notes: 1) Average liabilities are relative to current law, which will reduce liabilities through 2006 due to increases in the unified credit. 2) Amounts based upon 1997 Federal estate tax returns. Figures do not account for growth in estate values or number of returns. 3) Average values are estimated based on actual average estate sizes in 1997. As a result, differences exist between actual average liability and estimated average liability for 1997. See text for additional information.

Impact of H.R. 8 on State Revenues

Under H.R. 8, states with pick-up taxes would face either replacing the pick-up tax with some other form of death tax or absorbing the revenue loss resulting from the elimination of the credit for state death taxes. States with "combination" taxes usually require taxpayers to pay the greater of the pick-up tax or the state's own death tax. As a result, even states with combination taxes likely would experience revenue losses from H.R. 8. At a *maximum*, revenue losses in a combination state would equal the amount of state death tax credits claimed by that state's residents, under the assumption that those estates would have faced no liability under the non-pick-up portion of the state's death tax. Table 21 presents estimates of the impact of the Death Tax Elimination Act of 2000 on states once H.R. 8 fully eliminated the Federal estate tax, assuming states did not enact measures to preserve death tax revenues. Table 22 estimates the impact as H.R. 8's changes were phased-in. States with only a pick-up tax would experience the most significant reductions in revenues, entirely losing death taxes as a revenue source by 2010 (or 2011, depending on the lag in filing returns and the dates of a state's fiscal year). For states such as Florida, Delaware and Vermont, the lost revenue would comprise more than 2.0% of total state tax revenues. Even some states with combination taxes, such as New Hampshire, New York and Louisiana, could experience revenue losses which would comprise as much as 1.5% of total state tax revenues. On average, states would experience an average 1.2% reduction in state tax revenues once the Federal estate tax was fully repealed, a loss of more than \$5.3 billion in own-source revenue (not accounting for growth in death tax revenue between 1998 and 2010).

Michigan, which relies less on death tax revenues than do many other states, still would experience a significant revenue loss under H.R. 8. The January 2001 Consensus Revenue Estimating Conference forecasted Michigan death taxes to total \$190.0 million in FY 2000-01. Assuming a 4% growth rate per year after FY 2000-01, H.R. 8 would reduce Michigan death tax revenues by \$30.2 million in FY 2001-02, \$65.5 million in FY 2005-06, \$117.4 million in FY 2008-09, and \$284.7 million in FY 2009-10. If the average growth exceeds 4% per year, as it has over the 1994-1999 period, the revenue loss to Michigan would be even greater if the Federal estate tax were repealed.

Other Impacts of H.R. 8 on the Economy

As indicated above, H.R. 8 likely would reduce charitable giving. Some evidence, however, indicates elimination of the estate tax could impact the labor force and saving as well. For donees, the estate tax presents two conflicting effects: 1) a substitution effect, which encourages donees to substitute consumption and leisure because any accumulated wealth will be taxed away and thus not available for heirs, and 2) an income effect, by which donees save more and work longer in an effort to accumulate enough wealth to compensate for any taxes. Studies have been unable to verify the impact of estate taxes upon the work and saving efforts of donees.

Evidence from the 1982 Collation data, however, indicates large inheritances accelerate retirement, and for those who remain in the labor force, the labor supply and/or earnings often decline. In cases in which both spouses work, those receiving the largest inheritances are more than three times as likely to have both the husband and wife drop out of the labor force as heirs receiving the smallest bequests, and the likelihood that one spouse will leave the labor force is 1.5 times greater. Some consumption data suggest beneficiaries' saving also

may fall following a large inheritance, although the research indicates that the effects upon beneficiaries' labor supply (as opposed to the decision to remain in the labor force) and saving are small.

Principal reasons for the creation of the credit for state death taxes included reducing Federal preemption of a state revenue source and reducing interstate competition for the wealthy through death taxes. Under H.R. 8, the pressure for such interstate competition would be increased. States such as Michigan, Minnesota, Hawaii, and Alabama levy only a pick-up tax and death tax revenues comprise a very small portion of total state revenues. As indicated above, states with pick-up taxes would be faced with either replacing the pick-up tax with some form of death tax or absorbing the revenue loss under H.R. 8. Those states that absorbed the revenue loss would put substantial pressure on states less affected by the Federal changes, such as South Dakota, to reduce or eliminate death taxes, because the interstate differences would be much greater than those that currently exist.

Alternatives

The arguments against the estate tax vary, representing everything from objections to what is perceived as double or triple taxation, to questions about the propriety of taxing estates, to objections to the possible impact on saving and investment, to concerns the tax undermines the ability to pay principle (based upon the assumption that incidence lies upon the heirs), to behavioral considerations related to estate tax planning, to contentions that the tax now includes too many estates that should not be regarded as wealthy. Depending upon the objection raised, several alternatives could preserve either a portion of state and/or Federal revenues while reducing the factors of the Federal estate tax that opponents find objectionable. Each alternative, however, presents its own difficulties by either failing to address some concerns or raising new concerns.

Options to Preserve Only State Death Tax Revenues

The most significant impact on state death tax revenues results from the elimination of the state death tax credit. The substantial rate reductions, however, affect state revenues by lowering the state death tax credit in two ways: 1) by lowering the rates that determine the credit, and 2) by lowering Federal liability before credits, which serves as an upper limit for the amount of credit that may be claimed. One option, at the Federal level, would be to retain both the unified credit and the state death tax credit as under current law and introduce another credit, applied after the state death tax credit, that would eliminate any remaining Federal liability. Under this option, state death tax revenues would remain unaffected and Federal estate tax liability would be eliminated. Such an option, however, still would require estates to complete the Federal estate tax return and would leave the Federal government administering a tax with no revenue yield.

Another option, at the state level, would be for states to enact estate taxes using the structure associated with the current Federal credit for state death taxes. This option, however, would require each of the states levying such a tax to require its own version of the Federal form 706, and for estates involving property in multiple states the compliance burden could become quite significant. Similarly, the option would not address the issue of interstate competition for the wealthy and many states likely would find the incentive to modify the structure over time irresistible.

Table 21

IMPACT OF H.R. 8 ON STATE DEATH TAX REVENUES (based on 1998 death tax revenues, unadjusted for growth)							
State	Type of Tax ¹⁾	1998 Death Tax Revenue (\$1,000s)	Share of Death Tax Revenue		1998 Total Tax Revenue (\$1,000s)	Revenue Loss as a Share of All Taxes	Rank
			Comprising Pick-up Tax ²⁾	2010 Revenue Loss			
Alabama	P	\$35,594	100.0%	\$35,594	\$5,734,128	0.6%	40
Alaska	P	\$5,466	100.0%	\$5,466	\$1,186,235	0.5%	44
Arizona	P	\$64,490	100.0%	\$64,490	\$6,949,270	0.9%	25
Arkansas	P	\$32,684	100.0%	\$32,684	\$4,056,582	0.8%	27
California	P	\$787,383	100.0%	\$787,383	\$67,713,433	1.2%	17
Colorado	P	\$108,324	100.0%	\$108,324	\$5,898,349	1.8%	5
Connecticut	I	\$278,962	36.2%	\$100,867	\$9,393,604	1.1%	20
Delaware	P	\$44,626	100.0%	\$44,626	\$1,981,473	2.3%	2
Florida	P	\$577,530	100.0%	\$577,530	\$22,513,115	2.6%	1
Georgia	P	\$84,809	100.0%	\$84,809	\$11,589,495	0.7%	31
Hawaii	P	\$19,645	100.0%	\$19,645	\$3,176,246	0.6%	41
Idaho	P	\$8,624	100.0%	\$8,624	\$2,057,378	0.4%	49
Illinois	P	\$250,434	100.0%	\$250,434	\$19,771,284	1.3%	13
Indiana	I	\$124,686	53.5%	\$66,658	\$9,747,426	0.7%	35
Iowa	I	\$90,963	36.0%	\$32,753	\$4,802,531	0.7%	36
Kansas	P	\$88,651	100.0%	\$88,651	\$4,647,921	1.9%	4
Kentucky	I	\$105,538	67.7%	\$71,461	\$7,115,149	1.0%	22
Louisiana	I	\$89,786	326.8%	\$89,786	\$6,082,026	1.5%	9
Maine	P	\$40,536	100.0%	\$40,536	\$2,369,820	1.7%	6
Maryland	I	\$124,758	70.3%	\$87,663	\$9,190,482	1.0%	24
Massachusetts	P	\$191,336	100.0%	\$191,336	\$14,488,496	1.3%	12
MICHIGAN	P	\$110,383	100.0%	\$110,383	\$21,692,742	0.5%	43
Minnesota	P	\$61,612	100.0%	\$61,612	\$11,503,928	0.5%	42
Mississippi	E	\$21,107	88.2%	\$18,626	\$4,343,435	0.4%	47
Missouri	P	\$99,337	100.0%	\$99,337	\$8,222,326	1.2%	15
Montana	I	\$16,865	33.6%	\$5,675	\$1,331,895	0.4%	48
Nebraska	I	\$18,233	113.1%	\$18,233	\$2,633,216	0.7%	34
Nevada	P	\$44,801	100.0%	\$44,801	\$3,228,206	1.4%	10
New Hampshire	I	\$43,079	38.8%	\$16,696	\$1,008,518	1.7%	7
New Jersey	I	\$337,680	48.4%	\$163,509	\$15,604,971	1.0%	21
New Mexico	P	\$12,067	100.0%	\$12,067	\$3,574,537	0.3%	50
New York	E	\$1,022,208	56.2%	\$574,369	\$36,154,533	1.6%	8
North Carolina	P	\$164,925	100.0%	\$164,925	\$13,869,426	1.2%	16
North Dakota	P	\$4,710	100.0%	\$4,710	\$1,078,375	0.4%	46
Ohio	E	\$114,789	137.0%	\$114,789	\$17,642,836	0.7%	37
Oklahoma	E	\$81,385	40.8%	\$33,189	\$5,300,829	0.6%	39
Oregon	P	\$40,995	100.0%	\$40,995	\$4,999,091	0.8%	26
Pennsylvania	I	\$710,903	28.4%	\$201,858	\$20,629,483	1.0%	23
Rhode Island	P	\$20,102	100.0%	\$20,102	\$1,783,913	1.1%	19
South Carolina	P	\$45,086	100.0%	\$45,086	\$5,683,148	0.8%	28
South Dakota	I	\$25,793	20.4%	\$5,264	\$833,662	0.6%	38
Tennessee	I	\$113,119	76.9%	\$86,985	\$6,996,120	1.2%	14
Texas	P	\$326,923	100.0%	\$326,923	\$24,629,000	1.3%	11
Utah	P	\$25,417	100.0%	\$25,417	\$3,457,679	0.7%	30
Vermont	P	\$19,157	100.0%	\$19,157	\$957,656	2.0%	3
Virginia	P	\$122,304	100.0%	\$122,304	\$10,542,966	1.2%	18
Washington	P	\$82,203	100.0%	\$82,203	\$11,806,170	0.7%	33
West Virginia	P	\$13,211	100.0%	\$13,211	\$3,011,990	0.4%	45
Wisconsin	P	\$80,111	100.0%	\$80,111	\$11,149,754	0.7%	32
Wyoming	P	\$6,677	100.0%	\$6,677	\$855,716	0.8%	29
Total		\$6,940,007	76.5%	\$5,308,533	\$474,990,564	1.1%	

Note: 1) As of January 1999. Key: I - Inheritance/Pick-up Tax, E - Estate/Pick-up Tax; P - Pick-up Tax only.

2) For states with combination taxes, tax is paid on the greater of the pick-up tax or state death tax. The estimated revenue loss for these states represents the maximum revenue loss that these "combination tax" states might experience.

Source: Bureau of the Census, U.S. Department of Commerce and Senate Fiscal Agency.

Table 22

IMPACT OF H.R. 8 ON STATE DEATH TAX REVENUES (based on 1998 death tax revenues, unadjusted for growth)								
State	1998 Death Tax Revenue (\$1,000s)	2002 Revenue Loss (\$1,000s)	Percent Reduction in Death Tax Rev.	2006 Revenue Loss (\$1,000s)	Percent Reduction in Tax Revenue	2009 Revenue loss (\$1,000s)	Percent Reduction in Death Tax Rev.	2010 Revenue Loss (\$1,000s)
Alabama	\$35,594	\$5,169	14.5%	\$9,575	26.9%	\$15,268	42.9%	\$35,594
Alaska	\$5,466	\$794	14.5%	\$1,470	26.9%	\$2,345	42.9%	\$5,466
Arizona	\$64,490	\$9,365	14.5%	\$17,349	26.9%	\$27,663	42.9%	\$64,490
Arkansas	\$32,684	\$4,746	14.5%	\$8,793	26.9%	\$14,020	42.9%	\$32,684
California	\$787,383	\$114,340	14.5%	\$211,819	26.9%	\$337,747	42.9%	\$787,383
Colorado	\$108,324	\$15,730	14.5%	\$29,141	26.9%	\$46,465	42.9%	\$108,324
Connecticut	\$278,962	\$14,647	5.3%	\$27,135	9.7%	\$43,267	15.5%	\$100,867
Delaware	\$44,626	\$6,480	14.5%	\$12,005	26.9%	\$19,142	42.9%	\$44,626
Florida	\$577,530	\$83,866	14.5%	\$155,365	26.9%	\$247,731	42.9%	\$577,530
Georgia	\$84,809	\$12,316	14.5%	\$22,815	26.9%	\$36,379	42.9%	\$84,809
Hawaii	\$19,645	\$2,853	14.5%	\$5,285	26.9%	\$8,427	42.9%	\$19,645
Idaho	\$8,624	\$1,252	14.5%	\$2,320	26.9%	\$3,699	42.9%	\$8,624
Illinois	\$250,434	\$36,367	14.5%	\$67,371	26.9%	\$107,423	42.9%	\$250,434
Indiana	\$124,686	\$9,680	7.8%	\$17,932	14.4%	\$28,593	22.9%	\$66,658
Iowa	\$90,963	\$4,756	5.2%	\$8,811	9.7%	\$14,049	15.4%	\$32,753
Kansas	\$88,651	\$12,873	14.5%	\$23,849	26.9%	\$38,027	42.9%	\$88,651
Kentucky	\$105,538	\$10,377	9.8%	\$19,224	18.2%	\$30,653	29.0%	\$71,461
Louisiana	\$89,786	\$13,038	14.5%	\$24,154	26.9%	\$38,514	42.9%	\$89,786
Maine	\$40,536	\$5,886	14.5%	\$10,905	26.9%	\$17,388	42.9%	\$40,536
Maryland	\$124,758	\$12,730	10.2%	\$23,583	18.9%	\$37,603	30.1%	\$87,663
Massachusetts	\$191,336	\$27,785	14.5%	\$51,472	26.9%	\$82,073	42.9%	\$191,336
MICHIGAN	\$110,383	\$16,029	14.5%	\$29,695	26.9%	\$47,349	42.9%	\$110,383
Minnesota	\$61,612	\$8,947	14.5%	\$16,575	26.9%	\$26,428	42.9%	\$61,612
Mississippi	\$21,107	\$2,705	12.8%	\$5,011	23.7%	\$7,989	37.9%	\$18,626
Missouri	\$99,337	\$14,425	14.5%	\$26,723	26.9%	\$42,610	42.9%	\$99,337
Montana	\$16,865	\$824	4.9%	\$1,527	9.1%	\$2,434	14.4%	\$5,675
Nebraska	\$18,233	\$2,648	14.5%	\$4,905	26.9%	\$7,821	42.9%	\$18,233
Nevada	\$44,801	\$6,506	14.5%	\$12,052	26.9%	\$19,217	42.9%	\$44,801
New Hampshire	\$43,079	\$2,425	5.6%	\$4,492	10.4%	\$7,162	16.6%	\$16,696
New Jersey	\$337,680	\$23,744	7.0%	\$43,987	13.0%	\$70,137	20.8%	\$163,509
New Mexico	\$12,067	\$1,752	14.5%	\$3,246	26.9%	\$5,176	42.9%	\$12,067
New York	\$1,022,208	\$83,407	8.2%	\$154,514	15.1%	\$246,375	24.1%	\$574,369
North Carolina	\$164,925	\$23,950	14.5%	\$44,367	26.9%	\$70,744	42.9%	\$164,925
North Dakota	\$4,710	\$684	14.5%	\$1,267	26.9%	\$2,020	42.9%	\$4,710
Ohio	\$114,789	\$16,669	14.5%	\$30,880	26.9%	\$49,239	42.9%	\$114,789
Oklahoma	\$81,385	\$4,820	5.9%	\$8,928	11.0%	\$14,236	17.5%	\$33,189
Oregon	\$40,995	\$5,953	14.5%	\$11,028	26.9%	\$17,585	42.9%	\$40,995
Pennsylvania	\$710,903	\$29,313	4.1%	\$54,303	7.6%	\$86,587	12.2%	\$201,858
Rhode Island	\$20,102	\$2,919	14.5%	\$5,408	26.9%	\$8,623	42.9%	\$20,102
South Carolina	\$45,086	\$6,547	14.5%	\$12,129	26.9%	\$19,340	42.9%	\$45,086
South Dakota	\$25,793	\$764	3.0%	\$1,416	5.5%	\$2,258	8.8%	\$5,264
Tennessee	\$113,119	\$12,631	11.2%	\$23,400	20.7%	\$37,312	33.0%	\$86,985
Texas	\$326,923	\$47,474	14.5%	\$87,948	26.9%	\$140,233	42.9%	\$326,923
Utah	\$25,417	\$3,691	14.5%	\$6,838	26.9%	\$10,903	42.9%	\$25,417
Vermont	\$19,157	\$2,782	14.5%	\$5,154	26.9%	\$8,217	42.9%	\$19,157
Virginia	\$122,304	\$17,760	14.5%	\$32,902	26.9%	\$52,462	42.9%	\$122,304
Washington	\$82,203	\$11,937	14.5%	\$22,114	26.9%	\$35,261	42.9%	\$82,203
West Virginia	\$13,211	\$1,918	14.5%	\$3,554	26.9%	\$5,667	42.9%	\$13,211
Wisconsin	\$80,111	\$11,633	14.5%	\$21,551	26.9%	\$34,363	42.9%	\$80,111
Wyoming	\$6,677	\$970	14.5%	\$1,796	26.9%	\$2,864	42.9%	\$6,677
Total	\$6,940,007	\$770,878	11.1%	\$1,428,080	20.6%	\$2,277,088	32.8%	\$5,308,533

Source: Bureau of the Census, U.S. Department of Commerce and Senate Fiscal Agency.

Options to Preserve Both Federal and State Death Tax Revenues

Much of the grassroots support for eliminating death taxes at both the Federal and state levels centers on the issue of bequeathing family farms and businesses to heirs. Historically, death taxes have been reported to require heirs to sell such inheritances simply to pay the death taxes levied on the property. Similarly, because the unified credit is set at a specific, nonindexed level, estates find themselves caught in a form of "bracket creep" whereby economic growth and inflation combine to make previously untaxed estates taxable. As described earlier, [Table 13](#) shows this "bracket creep" to be a significant source of much of the recent revenue growth in death taxes. Consequently, among those favoring elimination of the Federal estate tax there is now a significant concern that the tax frequently is levied upon estates that should not be regarded as wealthy. Out of the 65.5 million owner-occupied housing units in the United States, more than 26.7%, or 17.5 million units, are valued at \$150,000 or more. An individual requiring an annual income of \$20,000 per year after retirement, who expects to live for 15 years after retirement, needs nearly \$300,000 even if medical expenses and bequests are neglected. An estate is likely to face possibly significant death taxes despite a modest accumulation of wealth, for taxpayers who provide for greater income during retirement; who own businesses, farms, rental property, or vacation cottages or homes; who have purchased significant life insurance to eliminate family debts in the event of a death; or who have simply experienced significant growth in their wealth from the rapid stock market growth of the last decade.

Estates valued at \$20 million and more represent 20.8% of Federal death taxes and 28.2% of the credit for state death taxes. The top 0.1% of estates (the top 5.4% estates that pay Federal estate taxes, or those estates with Federal liabilities valued at \$5 million or more) accounted for 48.6% of Federal estate tax revenues in 1997, and 54.7% of all credits for state death taxes. If the unified credit were increased to exempt effectively the first \$5 million of an estate's value, both state and Federal revenues would decline by slightly more than 50%, while the number of taxpayers would fall from 42,901 to 2,335. Under such an increase in the unified credit, the average value of an estate with a tax liability would be \$18.3 million.

Another alternative would permit family businesses or farms to be included in the deductions allowed against the gross estate, although to prevent abuses such deductions probably would need to face a dollar limit. The current additional credit for family farms or business follows this approach but prevents the combination of the unified credit and the family farm/business exemption from exempting more than \$1.3 million of the estate's value. Similarly, indexing the unified credit amounts would help eliminate "bracket creep".

More radical alternatives could incorporate changing the Federal estate tax in concert with other Federal taxes. In recent years, several proposals have been introduced to eliminate the income tax and replace it with a consumption-based tax. Adoption of consumption-based income taxes, consumption-based value added taxes, or national sales taxes all would be economically consistent with the elimination of an estate tax. Many nations with such consumption taxes, however, have retained significant death taxes in an effort to preserve both revenues and a greater degree of progressivity and wealth redistribution in the tax system.

CONCLUSION

On July 14, 2000, the U.S. Congress passed H.R. 8, the "Death Tax Elimination Act of 2000", which proposed to phase out the Federal estate and gift taxes over a 10-year period. Although President Clinton vetoed the bill, the issue remains popular with many members of the public, Congress, and with President Bush. If the Federal estate and gift taxes were to be eliminated, states likely would experience significant revenue losses, as would other sectors of the economy.

Death taxes serve to generate revenue, redistribute income, complement the income tax and fulfill other purposes. States have levied and continue to levy a variety of death taxes, including inheritance taxes, estate taxes, pick-up taxes, and combinations of these taxes. In 1999, the Federal government received \$27.8 billion in revenues under the Federal estate and gift taxes. In 1998, the most recent year for which state data are available, states received \$6.9 billion in revenue from death taxes.

Based on Federal data, 44.3% of estates that owe taxes under the Federal estate tax are valued at less than \$1 million and provide approximately 5.0% of the revenue generated by Federal estate tax. Estates valued at \$20 million or more provide 20.8% of the revenue generated by the Federal estate tax, yet represent only 0.8% of all taxable estates. Estates valued between \$600,000 and \$1,000,000 exhibited an average value of \$805,834 in 1997 and paid an average of \$43,927 in Federal estate taxes, compared with an average estate value of \$74.9 million and average Federal estate tax liability of \$10.5 million among estates valued at \$20 million or more.

The Federal estate tax provides a credit for state death taxes. Michigan's estate tax is a pick-up style tax that is based upon the Federal credit for state death taxes. In 1999, Michigan death tax revenues totaled \$174.9 million, up from \$57.0 million in 1994, the first full year of Michigan's pick-up estate tax. Based on national averages, 48.2% of those estates taxed under the Michigan estate tax are valued between \$600,000 and \$1 million, while 0.7% are valued at \$20 million or more. The liabilities for those estates valued below \$1 million represent 9.8% of Michigan death tax revenues, and those estates effectively will be exempt from both Michigan and Federal estate taxes by 2006. Liabilities from those estates valued at \$20 million or more represent 28.2% of Michigan death tax revenues.

Elimination of the Federal estate tax, as proposed under H.R. 8, would affect both Federal and state tax revenues, both directly and indirectly. Directly, Federal estate and gift tax revenues would be eliminated (a \$50.7 billion revenue loss in 2011) as would state death tax revenues attributable to pick-up provisions in state tax laws (a \$5.3 billion revenue loss if the elimination occurred in 1998). In Michigan, revenues would fall by more than \$190 million, based on the January 2001 Consensus Estimate. Indirectly, Federal and state income tax revenues would fall as a result of reduced capital gains and more heirs reducing or elimination their participation in the labor force. Charitable organizations likely would experience revenue losses also, as charitable giving declined. Interstate competition for the wealthy would increase, possibly resulting in the elimination of all death taxes at the state level.

ADDENDUM

With the cooperation of the Office of Revenue and Tax Analysis in the Michigan Department of Treasury, the Senate Fiscal Agency has developed a simulation program to harness the limited information recorded on the Michigan estate tax return to estimate taxable estate values, compile demographic and tax incidence information, and simulate the effect of tax and economic changes. Once the data from this simulation model becomes available, the Senate Fiscal Agency will issue an appendix to this report providing a description of the model, specific demographic information regarding the Michigan estate tax and the estimated effect eliminating the Federal estate tax would have on Michigan estate tax revenues.